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Administrator of National Banks

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Background

The Office of the Comptroller of the Currency (OCC) was established in 1863 as a bureau of the Department of the Treasury. The OCC is headed by the Comptroller who is appointed by the President, with the advice and consent of the Senate, for a 5-year term.

The OCC regulates national banks by its power to:

- Approve or deny applications for new charters, branches, capital or other changes in corporate or banking structure;
- Examine the banks;
- Take supervisory actions against banks which do not conform to laws and regulations or which otherwise engage in unsound banking practices, including removal of officers, negotiation of agreements to change existing banking practices and issuance of cease and desist orders; and
- Issue rules and regulations concerning banking practices and governing bank lending and investment practices and corporate structure.

The OCC divides the United States into six geographical districts, with each headed by a Deputy Comptroller.

The Office is funded through assessments on the assets of national banks.

The Comptroller

Robert Logan Clarke became the 26th Comptroller of the Currency on December 10, 1985.

By statute, the Comptroller serves a concurrent term as a Director of the Federal Deposit Insurance Corporation and as a member of the Federal Financial Institutions Examination Council.

An attorney, Mr. Clarke was formerly with the law firm of Bracewell & Patterson in Houston, Texas. He joined the firm in 1968 and founded its Banking Section in 1972.

Mr. Clarke received a B.A. degree from Rice University in 1963 and an LL.B. degree from Harvard University Law School in 1966. He served as a Captain in the United States Army from 1966 to 1968.

The *Quarterly Journal* is the journal of record for the most significant actions and policies of the Office of the Comptroller of the Currency. It is published four times a year in March, June, September and December. The *Quarterly Journal* includes policy statements, decisions on banking structure, selected speeches and testimony, material released in the interpretive letter series, statistical data, and other information of interest to the administration of national banks. Suggestions, comments or questions concerning the contents should be addressed to [illegible], Communications Division, Comptroller of the Currency, Washington, DC 20219. Subscriptions are available for [illegible] a year by writing to Publications—QJ, Comptroller of the Currency, [illegible].

Quarterly Journal

Office of the
Comptroller of the Currency

Robert L. Clarke

Comptroller of the Currency

The Administrator of National Banks

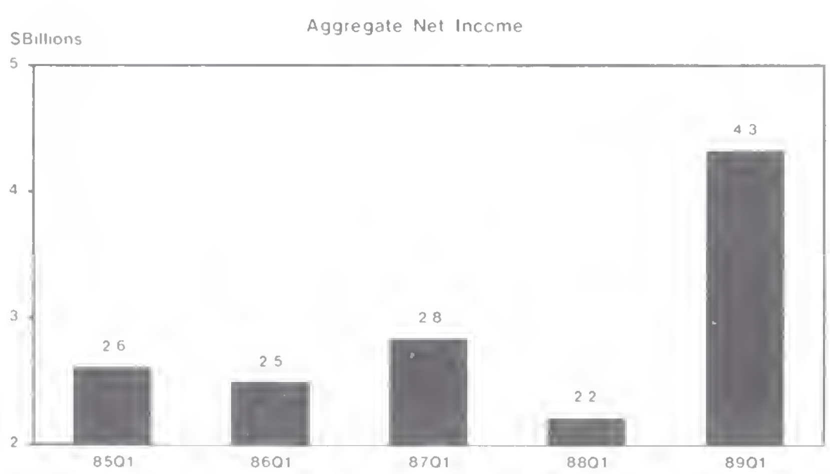
Contents

Operations of National Banks

Earnings Improved, Especially Among Poor Performers

National bank first-quarter earnings were $4.3 billion, an extraordinary 95 percent higher than first-quarter 1988 earnings and 53 percent above the previous 5-year high. The geographic pattern of earnings growth, however, suggests that the first-quarter results largely reflected the closing of many money-losing banks in the Southwest and a partial recovery of depressed earnings among some relatively poor performing banks. The surge in earnings did not signal a sudden movement toward new highs in industry-wide profitability.

NATIONAL BANK EARNINGS INCREASED DRAMATICALLY

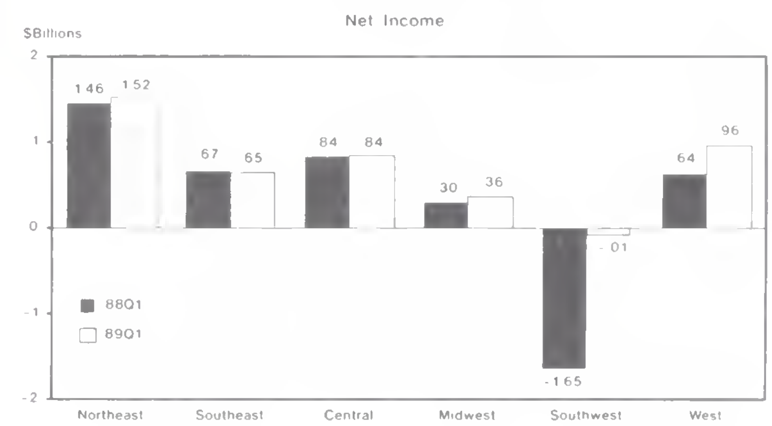


Source Call Reports

The $2 1 billion increase in aggregate earnings was concentrated in the Southwestern and Western districts, which have recently experienced the weakest earnings. Aggregate losses in the Southwestern District dropped by $1 6 billion more than $1 billion of which can be attributed to the closing of First RepublicBank of Dallas, N A , in the third quarter of 1988 In the Western District, aggregate earnings increased by over $ 3 billion to nearly $1 billion

The Midwestern District also experienced an increase in aggregate profits, up 20 percent to nearly $ 4 billion The Northwestern and Central districts experienced quarter-to-quarter profit growth of less than 5 percent and earnings decreased in the Southeastern District all of those districts have had relatively strong recent earnings.

THE IMPROVEMENT IN EARNINGS WAS CONCENTRATED WEST OF MISSISSIPPI



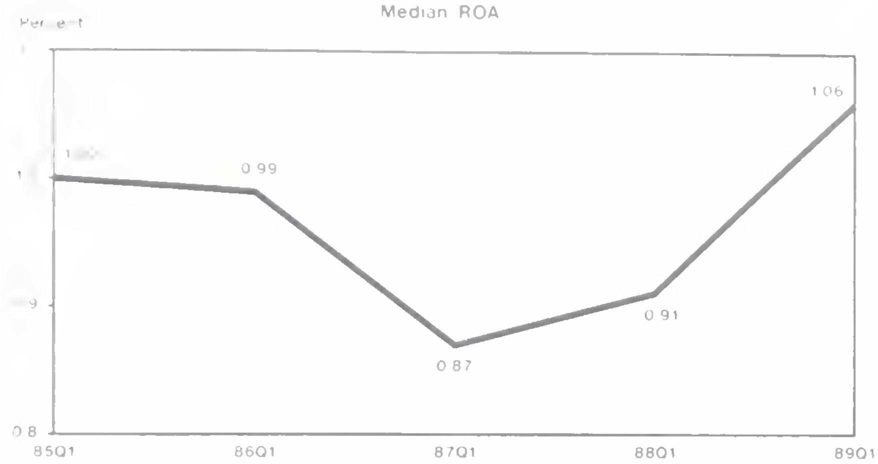
Source Call Reports

Median ROA Above One Percent

Although the first-quarter earnings comparisons with the previous years were influenced by special circumstances, median return on assets (ROA) increased suggesting that higher earnings were widespread There was a strong rebound in ROA by banks in the Western and Southwestern districts and by small banks throughout the country Annualized median ROA for national banks was 1 06 percent for the first quarter of 1989, up 15 basis points from first-quarter 1988 Not since 1985 has first-quarter median ROA been as high as 1 percent

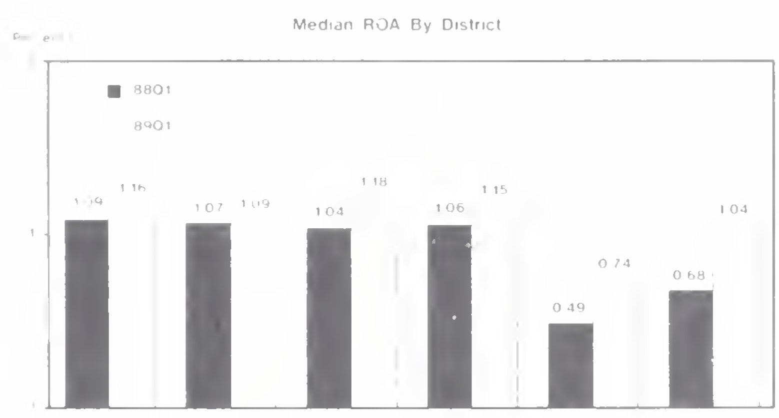
Higher median ROA occurred in all of the districts but the biggest improvement was seen in two districts that contain 40 percent of all national banks the Southwestern and Western, which were previously poor performers Median national-bank ROA rose 25 basis points in the Southwestern District and 36 basis points in the Western District In spite of the size of the increase median ROA in the Southwestern District was still by far the lowest of any district

FIRST QUARTER ROA CONTINUED ITS REBOUND



Source Call Reports

ROA INCREASED THE MOST IN THE SOUTHWEST AND WEST



Source Call Reports

As noted above, the increase in median ROA reflected improved profitability among small banks. The median ROA of the smallest national banks (less than $1 billion in assets) rose 15 basis points from .93 percent in first quarter 1988 to 1.08 percent in first-quarter 1989. Medium-sized banks (between $1 and $10 billion in assets) also registered an increase, from 1.02 percent to 1.08 percent. The median ROA of the largest banks (over $10 billion in assets) remained unchanged at .98 percent.

Improved ROE Confirmed Recovery

[illegible] quarter 1989 return on equity (ROE) confirmed the recovery [illegible] indicated by ROA. The annual- [illegible] ROE for national banks was 12.91 percent [illegible] up from 11.09 percent [illegible]

ROE is an alternative to ROA, the traditional measure of bank profitability used in these reports. Wide variation in the ratio of equity to assets has been viewed as a limitation on the use of ROE for profit comparisons among banks. However, the growth of off-balance-sheet activity as a source of substantial income for some banks raises the possibility of differences in ROA among banks with equal assets and equally profitable use of those assets. Thus, both ROA and ROE may be viewed as alternate, but incomplete, measures of bank profitability.

Bigger banks continued to have higher ROE than small banks because of relatively lower ratios of equity to assets. Smaller banks, however, had larger increases in ROE than a year earlier, reinforcing the notion of a recovery in their profitability. Median small-bank ROE was 12.96 percent in first quarter 1989, up 163 basis points from first quarter 1988. For medium-sized banks, the median increased 86 basis points to 16.90 percent, while for the largest banks it rose 40 basis points to 19.01 percent.

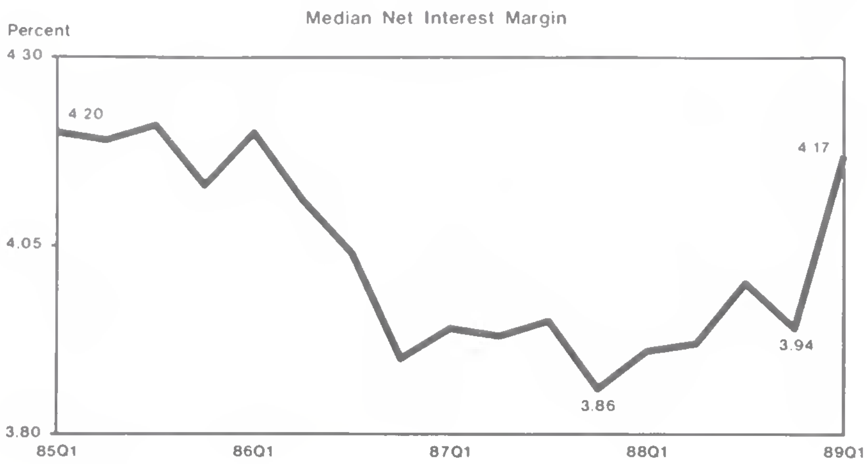
Comparisons of ROE by district also support the idea of a partial recovery among Western and Southwestern district national banks, where median ROE rose 423 and 330 basis points, respectively. Nevertheless, in the first quarter of 1989, median ROE in the Southwestern District remained the lowest of any district, at 9.94 percent.

Higher Margins, Not Lower Provisions, Boosted Profitability

An increase in net interest margin stimulated higher ROA for national banks. At 4.17 percent, the median net interest margin showed a strong 26 basis point increase over first quarter 1988. Although the median cost of funding assets rose, the increase in the yield on assets more than offset those higher funding costs, boosting margins.[1] As can be seen from the quarterly time series, this was the highest margin observed since the third quarter of 1985, and the recovery to this level was attained almost exclusively in the last quarter. Since reaching its 5-year low of 3.86 percent in the fourth quarter of 1987, the margin had increased gradually but erratically until the 23 basis point increase between the end of 1988 and the end of the first quarter 1989.

[1] [illegible]

NET INTEREST MARGINS WIDENED



Source: Call Reports

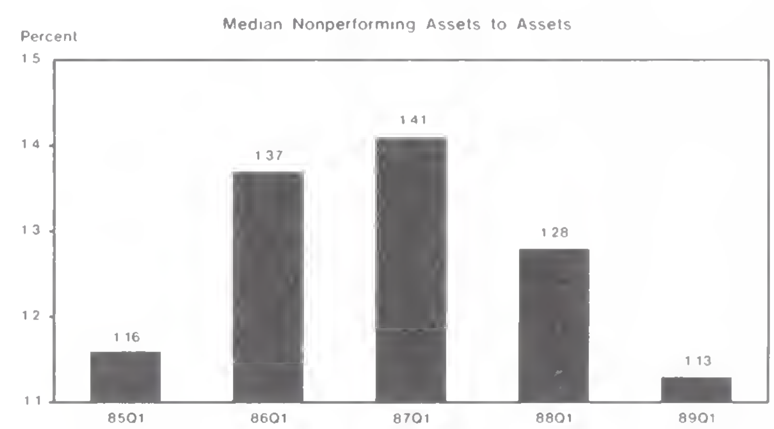
In contrast to 1988, the improvement in profitability this year has not been boosted by significant decreases in loan-loss provisions. From the first quarter of 1988 to the first quarter of 1989, the ratio of loan-loss provisions to assets fell only 1 basis point. For the previous 4 quarters, the year-by-year decrease in this ratio averaged nearly 7 basis points.

Credit Quality Improvement Masked Disparate Fortunes

Overall, aggregate credit quality improved in the first quarter of 1989, despite worsening in some districts. The median ratio of nonperforming assets to total assets fell for the second consecutive year, reaching 1.13 percent, its lowest first-quarter level in 5 years.

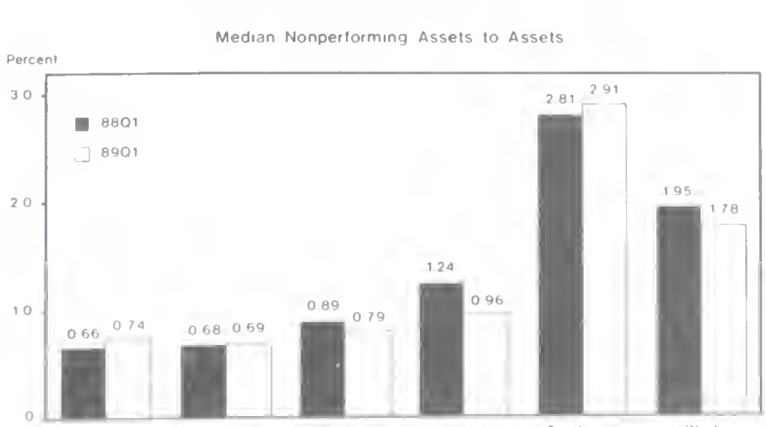
The decrease in the national median was due to improvements in the Central, Midwestern, and Western districts that overshadowed increases in the Southwestern, Southeastern, and Northeastern districts. Difficult times continued for the Southwestern District, where the median ratio was 10 basis points higher than in the first quarter a year before and 178 basis points above the national median. The median ratio for the Southeastern District was up by 1 basis point and by 8 basis points for the Northeastern District from a year earlier. While the median ratios for both districts remained far below the national median, there were some striking developments in the Northeastern District, where total nonperforming assets rose 6 percent, and nonperforming real estate assets rose 34 percent, from the first quarter of 1989.

NONPERFORMING ASSETS FELL TO FIVE-YEAR LOW



Source: Call Reports

NONPERFORMING ASSETS REFLECT DIVERGENT FORTUNES



Source: Call Reports

Accounting for Earnings Recovery: Tales of Two Districts

The Southwestern and Western districts, quarter-to-quarter, witnessed the biggest improvement in earnings and experienced the largest increases in median ROA. Although the same factors account for such similar performance, their relative importance was striking dissimilar.

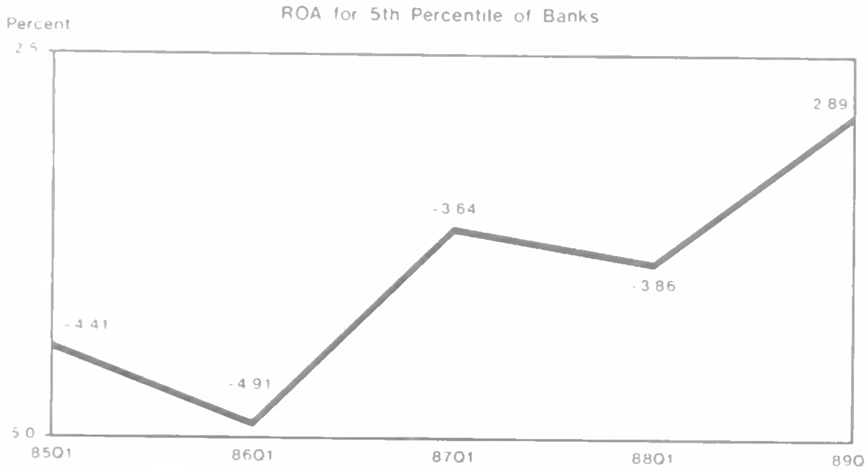
In both districts, improvement in ROA stemmed from the failure of unprofitable banks and from the improved profitability of the remaining banks. While both of those factors played a role in the Southwestern District, improved profitability in the Western District stemmed almost entirely from the renewed profitability of weak banks.

In the Southwestern District, 102 national banks failed between the end of the first quarter of 1988 and the end of the first quarter of 1989. If those banks had not failed, and if, as is almost certainly the case, they had continued to be among the weakest earners, the median bank in the Southwestern District in the first quarter of

1989 would have had an ROA of .63 percent. With those banks closed, the median ROA was 11 basis points higher, or .74 percent. The rest of the 25 basis point increase in median ROA was due to improved profitability among survivors.

WEAKEST PERFORMERS IN WESTERN DISTRICT IMPROVED

ROA for 5th Percentile of Banks



Source: Call Reports

In the Western District, improved profitability of surviving banks accounts for nearly all of the improvement in the median, since only 2 national banks failed between the end of the first quarter of 1988 and the end of the first quarter of 1989.

The extent of the improvement in the performance of Western District banks was especially apparent among those with the weakest earnings. The ROA of the national banks in the 5th percentile in the Western District improved to –2.89 percent in the first quarter of 1989, a dramatic rise of 97 basis points over a year ago.

Summary

National banks reported an unusually large increase in earnings between the first quarter of 1988 and the first quarter of 1989. The extraordinary increase was due mainly to the absence of first-quarter losses by big Texas banks that are now closed. Beyond that, the increase in profits signaled some earnings recovery, especially among small banks.

While profitability continued to improve for national banks, the rates of profit increase in two of the districts that have recently had the highest median ROA, the Northeastern and Southeastern districts, slowed. In addition, the median ratio of nonperforming assets to assets increased in those districts, although it remained below the national median.

Among the other districts, the large increase in median ROA observed in the Southwestern District was due, in part, to the closing of unprofitable banks. Surviving Southwestern District national banks continued to be the least profitable and experienced an increase in the median ratio of nonperforming assets to assets. The large increase in median ROA in the Western District was due almost exclusively to improved profitability among surviving banks.

Jeffrey A. Brown
Financial Economist
Industry and Financial Analysis Division

Summary statistics for national banks
(Data through first quarter 1989)

	3/31/85	3/31/86	3/31/87	3/31/88	3/31/89	[illegible] Over $1B	$1B-$100M	$0-$100M	New Banks[1]
Banking Aggregates									
Number of Banks	4,900	4,911	4,783	4,524	4,277	31	184	[illegible]	[illegible]
Total Assets ($ Billion)	1,490	1,623	1,707	1,772	1,854	831	589	387	48
Net Income ($ Million)	2,612	2,498	2,841	2,214	4,322	1,090	1,332	820	80
Standbys & Commitments ($ Billion)	447	479	494	526	553	376	140	28	10
Percent of Banks with Losses	15.53	17.17	18.31	15.43	11.32	0	5.43	[illegible]	41.38
Number of Failed National Banks	6	9	23	10	32	0	2	29	1
Number of Problem National Banks[2]	227	287	305	309	311				
Performance Measures (Medians)									
Profitability (%)									
Return on Equity	12.62	12.31	10.71	11.09	12.91	19.01	16.90	[illegible]	1.93
Return on Assets	1.00	0.99	0.87	0.91	1.06	0.98	1.09	1.08	0.21
Yield on Assets	10.68	9.94	8.68	8.73	9.53	9.50	9.72	9.51	9.97
Cost of Funding Assets	6.49	5.76	4.76	4.85	5.37	6.17	5.79	5.34	5.21
Net Interest Income to Assets	4.21	4.21	3.94	3.91	4.17	3.28	4.04	4.17	4.80
Loss Provision to Assets	0.26	0.33	0.29	0.23	0.22	0.37	0.41	0.21	0.30
Noninterest Income to Assets	0.68	0.70	0.70	0.70	0.70	1.43	1.32	0.68	0.65
Noninterest Expense to Assets	3.38	3.44	3.32	3.31	3.36	3.16	3.54	3.29	[illegible]
Net Operating Income to Assets	0.98	0.87	0.75	0.84	1.05	0.97	1.10	1.06	[illegible]
Asset Quality (%)									
Nonperforming Assets to Assets[3]	1.16	1.37	1.41	1.28	1.13	2.06	1.06	1.19	[illegible]
Loss Reserve to Loans	1.08	1.23	1.38	1.47	1.46	2.25	1.38	1.49	1.02
Net Loss to Loans	0.11	0.23	0.23	0.16	0.15	0.56	0.48	0.14	[illegible]
Funding & Liquidity (%)									
Net Loans & Leases to Assets	54.71	54.25	52.90	53.86	54.10	63.67	65.72	53.48	[illegible]
Wholesale Funds to Deposits	10.92	11.29	10.27	10.92	11.23	34.42	17.01	10.53	[illegible]
Capital (%)									
Total Capital to Assets	8.78	8.76	8.67	8.75	8.80	7.47	7.64	8.83	13.61
Primary Capital to Assets	8.62	8.63	8.54	8.63	8.68	7.26	7.39	8.73	13.52
Equity Capital to Assets	8.00	7.91	7.76	7.82	7.85	5.49	6.41	7.90	12.94
Growth Rates (%)									
Assets	7.63	7.80	5.92	4.20	5.74	4.12	8.55	5.43	[illegible]
Equity Capital	8.10	7.54	5.58	5.40	6.41	12.92	9.74	6.28	[illegible]
Net Loans & Leases	11.92	6.89	4.00	6.62	8.02	5.60	10.04	7.55	40.39

[1] New banks are banks that have been in operation less than 3 years.
NCNB Texas is included in the new banks statistics.
[2] Problem banks have composite CAMEL ratings of 4 or 5.
[3] Nonperforming assets are loans past-due 90 days or more, loans in nonaccrual status, and OREO.
Industry & Financial Analysis

Summary statistics for national banks by district
(Data through first quarter 1989)

	Northeastern	Southeastern	Central	Midwestern	Southwestern	Western	U.S.
Key Aggregates							
Number of Banks	456	[illegible]	873	684	1 139	559	4 27[illegible]
Total Assets ($ Billions)	964	278	302	110	181	320	1 854
Net Income ($ Millions)	1 [illegible]4	647	840	364	15	962	4 322
[illegible] ($ Billions)	230	53	87	21	30	133	553
Percent of Banks with Losses	6.17	10.45	[illegible].41	3.80	23.35	15.21	11.32
Number of Failed National Banks	0	0	[illegible]	0	32	0	32
Number of Problem National Banks	8	9	9	27	217	41	311
Performance Measures (Medians)							
Profitability (%)							
Return on Equity	14.59	13.[illegible]	14.[illegible]4	13.47	9.94	12.91	12.91
Return on Assets	1.16	1.09	1.18	1.15	0.74	1.04	1.06
Yield on Assets	9.86	9.76	[illegible].46	9.39	9.29	9.84	9.53
Cost of Funding Assets	5.54	5.[illegible]1	5.44	5.34	5.40	4.83	5.37
Net Interest Income to Assets	4.45	4.27	4.[illegible]	4.00	3.96	4.95	4.17
Loss Provision to Assets	0.20	[illegible]	0.17	0.13	0.36	0.33	0.22
Noninterest Income to Assets	0.[illegible]	[illegible]	0.56	0.61	0.83	1.02	0.70
Noninterest Expense to Assets	3.25	[illegible].46	[illegible]	3.00	3.56	4.59	3.36
Net Operating Income to Assets	1.16	1.09	1.1[illegible]	1.14	0.70	1.01	1.05
Asset Quality (%)							
Nonperforming Assets(2) to Assets	0.74	0.69	0.79	[illegible].96	2.91	1.78	1.13
Loss Reserve to Loans	1.[illegible]	1.15	1.[illegible]	1.69	2.12	1.76	1.46
Net Loss to Loans	0.09	0.13	0.10	0.01	1.51	0.23	0.15
Funding & Liquidity (%)							
Net Loans & Leases(3) to Assets	6[illegible]	[illegible]	[illegible]	49.97	48.85	55.33	54.10
Wholesale Funds to Deposits	9.41	13.3[illegible]	[illegible]	7.06	18.11	11.56	11.23
Capital (%)							
Total Capital to Assets	8.[illegible]	[illegible]	[illegible]	[illegible]	8.35	8.79	8.80
Primary Capital to Assets	[illegible].67	8.90	8.7[illegible]	9.1[illegible]	8.22	8.66	8.68
Equity Capital to Assets	7.[illegible]	8.[illegible]3	[illegible]	8.[illegible]	7.24	7.67	7.85
Growth Rates (%)							
Assets	[illegible].81	8.43	[illegible].61	[illegible]	3.94	7.47	[illegible].74
Equity Capital	10.54	8.[illegible]7	6.67	6.6[illegible]	1.76	7.14	6.41
Net Loans & Leases	13.67	1[illegible].41	10.[illegible]8	8.68	0.13	4.69	8.02

(1) Problem banks have composite CAMEL ratings of 4 or 5
(2) Nonperforming assets are loans past due 90 days or more, loans in nonaccrual status and OREO
(3) Loans & Leases [illegible]

Summary statistics for insured commercial banks
(Data through first quarter 1989)

						3 31 89			
	3 31 85	*3 31 86*	*3 31 87*	*3 31 88*	*3 31 89*	*Over $10B*	*$1B $10B*	*$0 $1B*	*New Banks*
Banking Aggregates									
Number of Banks	14 355	14 204	13 883	13 336	12 801	39	313	11 819	630
Total Assets ($ Billion)	2 488	2 706	2 867	2 965	3 084	1 156	948	916	64
Net Income ($ Million)	4 741	4 993	5 167	4 862	7 173	2 644	2 200	2 228	101
Standbys & Commitments ($ Billion)	659	714	739	789	820	520	227	62	11
Percent of Banks with Losses	12 31	13 66	14 68	12 95	8 62	2 56	5 11	7 39	33 65
Number of Failed Commercial Banks	20	26	52	46	62				
Performance Measures (Medians)									
Profitability (%)									
Return on Equity	13 45	13 18	11 55	11 54	12 83	18 85	16 80	12 98	2 95
Return on Assets	1 11	1 09	0 96	0 97	1 10	0 98	1 08	1 12	0 41
Yield on Assets	10 82	10 03	8 80	8 79	9 52	9 28	9 77	9 51	10 29
Cost of Funding Assets	6 59	5 81	4 80	4 87	5 37	6 40	5 83	5 35	5 48
Net Interest Income to Assets	4 26	4 24	4 00	3 94	4 18	3 10	4 05	4 17	4 79
Loss Provision to Assets	0 22	0 29	0 25	0 20	0 19	0 33	0 35	0 18	0 37
Noninterest Income to Assets	0 63	0 64	0 64	0 64	0 65	1 58	1 22	0 64	0 52
Noninterest Expense to Assets	3 23	3 29	3 21	3 20	3 23	3 09	3 46	3 18	4 74
Net Operating Income to Assets	1 07	0 98	0 86	0 90	1 08	0 97	1 08	1 10	0 37
Asset Quality (%)									
Nonperforming Assets to Assets[3]	1 29	1 47	1 43	1 23	1 08	2 26	0 99	1 12	0 07
Loss Reserve to Loans	1 04	1 19	1 32	1 38	1 40	2 63	1 32	1 42	0 98
Net Loss to Loans	0 07	0 14	0 13	0 09	0 07	0 56	0 39	0 07	0 00
Funding & Liquidity (%)									
Net Loans & Leases to Assets	53 98	52 91	51 56	52 54	53 39	63 41	65 98	52 84	54 62
Wholesale Funds to Deposits	9 56	9 66	8 80	9 63	10 19	34 42	16 90	9 67	20 21
Capital (%)									
Total Capital to Assets	8 93	8 95	8 86	8 96	9 06	7 67	7 63	9 05	13 14
Primary Capital to Assets	8 81	8 83	8 75	8 85	8 95	7 38	7 39	8 95	13 08
Equity Capital to Assets	8 19	8 16	8 01	8 08	8 19	5 39	6 41	8 18	12 37
Growth Rates (%)									
Assets	7 26	6 99	5 81	3 87	5 38	4 03	9 02	5 10	42 93
Equity Capital	8 33	7 75	5 85	5 81	6 66	13 20	10 49	6 64	3 38
Net Loans & Leases	10 24	4 95	3 41	6 71	8 34	5 48	11 15	7 93	56 27

[1]New banks are banks that have been in operation less than 3 years

[2]NCNB Texas is included in the new banks statistics

[3]Nonperforming assets are loans past-due 90 days or more, loans in nonaccrual status, and OREO

Industry & Financial Analysis

Summary statistics for insured commercial banks by district
(Data through first quarter 1989)

	Northeastern	*Southeastern*	*Central*	*Midwestern*	*Southwestern*	*Western*	*U.S.*
Banking Aggregates							
Number of Banks	1 044	1 932	2 895	3 065	2 490	1 375	12 801
Total Assets ($ Billion)	1 205	447	504	202	259	467	3 084
Net Income ($ Million)	2 630	1 095	1 387	623	115	1 324	7 173
[illegible] & Commitments ($ Billion)	403	73	115	25	33	171	820
Percent of Banks with Losses	7.38	7.92	3.18	5.12	18.84	11.27	8.62
Number of Failed Commercial Banks	[illegible]	2	0	2	57	1	62
Performance Measures (Medians)							
Profitability (%)							
Return on Equity	13.91	12.67	13.20	12.97	11.02	13.23	12.83
Return on Assets	1.14	1.12	1.14	1.16	0.88	1.08	1.10
Yield on Assets	10.04	9.92	9.44	9.31	9.32	9.95	9.52
Cost of Funding Assets	5.60	5.61	5.43	5.30	5.35	4.83	5.37
Net Interest Income to Assets	4.46	4.36	4.07	4.02	3.99	5.12	4.18
Loss Provision to Assets	0.20	0.22	0.15	0.08	0.32	0.29	0.19
Noninterest Income to Assets	0.51	0.75	0.50	0.54	0.82	1.01	0.65
Noninterest Expense to Assets	3.28	3.45	2.93	2.86	3.45	4.60	3.23
Net Operating Income to Assets	1.12	1.11	1.13	1.15	0.84	1.04	1.08
Asset Quality (%)							
Nonperforming Assets to Assets	0.69	0.72	0.80	1.00	2.70	1.78	1.08
Loss Reserve to Loans	1.01	1.12	1.22	1.75	1.98	1.50	1.40
Net Loss to Loans	0.05	0.09	0.04	0.00	0.38	0.15	0.07
Funding & Liquidity (%)							
Net Loans & Leases to Assets	67.12	57.22	55.00	47.90	47.76	57.60	53.39
Wholesale Funds to Deposits	10.67	13.49	7.83	5.98	16.63	11.63	10.19
Capital (%)							
Total Capital to Assets	9.02	9.33	8.97	9.47	8.51	8.80	9.06
Primary Capital to Assets	8.84	9.27	8.88	9.36	8.40	8.68	8.95
Equity Capital to Assets	8.12	8.63	8.20	8.50	7.47	7.84	8.19
Growth Rates (%)							
Assets	8.92	8.77	5.61	3.17	3.44	7.17	5.38
Equity Capital	10.45	7.98	6.92	6.27	2.49	8.24	6.66
Net Loans & Leases	14.34	12.14	9.99	7.99	0.09	5.98	8.34

Nonperforming assets are loans past-due 90 days or more, loans in nonaccrual status, and OREO.
Industry & Financial Analysis

Texas Banking—The End of a Crisis: A New Beginning

On July 20, 1989, the bank subsidiaries of Texas American Bancshares, Inc. of Fort Worth were declared insolvent by OCC and Texas state banking officials. They reopened on July 21, 1989 as branches of the Texas American Bridge Bank, National Association (TABB). The same day the Federal Deposit Insurance Corporation (FDIC) announced that the Equimark Corporation of Pittsburgh had been selected to acquire National Bancshares Corporation of Texas through an FDIC 13(c) open bank assistance transaction. These two events marked the end of an era in Texas banking. Of the 10 largest bank holding companies in Texas, only Cullen/Frost Bankers of San Antonio has remained intact, without assistance from either the FDIC or out-of-state investors.

Background

The decline of the large Texas bank holding companies' fortunes accelerated in 1988, with five of six federally assisted rescue packages initiated that year. The largest bank holding companies in Texas were acquired as follows:

- Texas Commerce Bancshares (TCB) by Chemical Bank Corporation in an unassisted merger in December 1986.

- BancTexas, Inc. (BTI) by the Hallwood Group in an FDIC-assisted acquisition in July 1987.

- Allied Bancshares, Inc. (Allied) by First Interstate Bancorp in an unassisted merger in January 1988.

- First City Bancshares (FCB) by Robert Abboud in an FDIC 13(c) open bank assisted acquisition in April 1988

- First RepublicBank Corp. (FRBC)—the merged banking subsidiaries of InterFirst Corporation and RepublicBank Corporation were declared insolvent and merged into NCNB Texas (a bridge bank) under the management of NCNB of Charlotte, North Carolina in July 1988. NCNB acquired 100 percent of the bridge bank in July 1989.

- MCorp—20 national banks were declared insolvent and merged into the Deposit Insurance Bridge Bank, N.A. in March 1989; an assisted acquisition by BancOne occurred in June 1989

- Texas American Bancshares, Inc. (TAB)—the banks were declared insolvent and merged into Texas American Bridge Bank, N.A. under the management of TexOp Bancshares, Inc. in July 1989.

- National Bancshares Corp. (NBC) by Equimark Corp. in an FDIC 13(c) open bank assistance agreement announced in July 1989

During the oil boom years, these Texas banking companies rode the crest of the Texas economy and became the "darlings" of financial analysts because of their highly favorable returns in comparison to other U.S. banks. However, as oil prices plummeted, the Texas economy entered a deep depression from which it is only now beginning to recover. The substantive decline in the Texas economy severely affected its banking industry. Since 1984, over 300 banks have been declared insolvent in Texas

Many Texas banks suffered because of their inability to diversify out of energy related activities. During the oil boom years, the large Texas banking companies established significant concentrations of energy related credits. Those companies, such as RepublicBank Corporation and MCorp, that attempted to diversify by establishing substantial real estate credit portfolios found that even real estate related lending would be severely affected by the decline in oil prices. Diversification into real estate lending merely provided additional time for these banks to attempt to survive the economic depression in Texas.

Plummeting oil prices forced the thinly capitalized entrepreneurs into insolvency first, but as prices failed to recover, larger well-established energy companies began to declare bankruptcy. This in turn affected many Texas banks which had reported quarter-on-quarter earnings increases since the 1960s. Efforts to use nonrecurring earnings to support profitability were closely scrutinized by the financial analysts and comments became increasingly negative about Texas banks

The oil boom resulted in many speculative ventures and a great deal of construction of office buildings, shopping malls, and homes to be leased or sold at vastly inflated prices. As oil prices fell and remained depressed, these properties could not even be leased or sold at rock bottom prices. In late 1985 the outskirts of Houston began to look like a ghost town as speculative residential malls, and office buildings stood

[illegible] Texas banks began to suffer losses on their real estate portfolios especially in construction and speculative real estate investment loans. Continued losses from energy and real estate credits further destabilized the Texas banking environment, raising the specter that the failure of a multi-billion dollar banking concern would send shock waves through the entire U.S. banking system.

The following provides a brief chronology of events and a description of the five assisted transactions that began in 1988.

RepublicBank Corporation (RBC)

RBC was found in 1987 by the merger of InterFirst Corporation and RepublicBank Corporation. Although significant supervisory concerns existed regarding the merger of the two largest banking companies in Texas, the long-term prospects for the merged institution to survive Texas' depressed economic conditions appeared reasonable. Continued losses from energy and real estate lending, however, especially burgeoning losses in the Dallas, Houston, and Austin real estate portfolios, caused the failure of this institution.

In February 1988, press articles regarding heavy losses suffered by RBC led to substantial withdrawals of funds from RBC's lead banks, RepublicBank Dallas, N.A. (RBD) and RepublicBank Houston, N.A. (RBH). In order to support its sister banks, RBC's other subsidiary banks lent funds in the form of federal funds sold and intracompany deposits placed with RBD and RBH. This support was not sufficient and both RBD and RBH were forced to borrow substantial funds from the Federal Reserve Bank of Dallas.

The situation continued to destabilize as press speculation became rampant regarding RBC's ability to fund its commitments and the outcome of the OCC examination which was in progress at that time. In an effort to stabilize the situation, the FDIC announced, on March 15, 1988, that it would lend $1 billion to RBD and guarantee deposits placed at RBC's banks. In return for this support, RBC's banking subsidiaries agreed to guarantee the loan made to RBD. This served to stabilize the situation somewhat, however, RBD's and RBH's [illegible] continued to dissipate albeit at a slower [illegible]. RBC's condition was further affected because the OCC examination identified substantive loan losses and determined a large provision was needed to replenish RBC's allowance for loan losses (ALLL).

[illegible] its support, the FDIC began [illegible] to remedy RBC's deteriorating [illegible] open bank assistance [illegible] interested parties and several closed bank acquisition proposals. After much deliberation, the FDIC Board of Directors determined that it would not support an open bank assistance proposal for RBC's banking subsidiaries because such assistance was not in the public's interest. The OCC was notified of the FDIC's decision not to provide open bank assistance.

On July 29, 1988, the OCC determined that, without FDIC open bank assistance, RBD was no longer a viable institution and notified the Federal Reserve Board (FRB) of this determination. The FRB then demanded RBD and RBH repay the Federal Reserve Bank of Dallas' discount window loans. Neither RBD nor RBH were able to meet this demand and were declared liquidity insolvent by the OCC. RBD's insolvency triggered RBC's subsidiary banks' guarantee to the FDIC for repayment of funds lent to RBD. Liability for the guarantee and losses suffered from intracompany federal funds lent to RBD and RBH resulted in the book insolvency of RBC's remaining 29 banks.

Under emergency procedures, the FDIC applied for and was granted a bridge bank charter by the OCC. As receiver for RBC's 40 failed national and state-chartered banks, the FDIC purchased and assumed certain assets and liabilities of these banks into its bridge bank, NCNB Texas, N.A. (NCNB-TX). The FDIC also announced that the NCNB Corporation of Charlotte, North Carolina (NCNB-NC) had been selected to acquire RBC's failed banks with substantial FDIC assistance. As originally conceived, NCNB-NC would initially acquire a minority interest in NCNB-TX and eventually acquire all of it over 5 years. On July 27, 1989, the FDIC approved NCNB-NC's 100 percent acquisition of NCNB-TX within 10 days. NCNB-NC indicated that its acquisition of NCNB-TX had been accelerated because conditions in Texas and NCNB-TX's performance were much better than had been originally anticipated.

MCorp

MCorp also suffered heavy losses in its energy and real estate portfolios; 18 of its banks were undercapitalized. In early 1988, efforts to issue approximately $200 million in preferred MCorp stock were derailed by RBC's well publicized problems. MCorp saw no alternative but to seek assistance from the FDIC to save its banks.

By the summer of 1988, a proposal for 13(c) open bank assistance had been submitted to the FDIC. MCorp's refusal to utilize holding company funds to recapitalize its banks, erosion of liquidity support that resulted in borrowings from the Federal Reserve Bank of Dallas by MBank Dallas, N.A., and threats by both MCorp credi-

tors and management to force the company into bankruptcy brought the situation to a head. On November 7, 1988, the FDIC and MCorp entered into a nonbinding standstill agreement in which the OCC and FRB agreed to hold their enforcement actions against MCorp and its bank subsidiaries in abeyance while the FDIC considered assistance proposals submitted by MCorp and other interested parties. In return for the FDIC's consideration of assistance, MCorp agreed to allow outside parties to conduct due diligence at its subsidiaries and to exert its best efforts to maintain stability among the MBanks.

While the FDIC sought bid proposals from MCorp and other interested parties, the OCC began an examination of all of MCorp's banking subsidiaries. During the examination, funding support continued to erode and losses mounted. On March 24, 1989, a small group of creditors petitioned to have MCorp placed into involuntary bankruptcy for failure to meet regularly scheduled debt payments.

The FDIC's Board decided not to support a 13(c) open bank assistance proposal for the banking subsidiaries of MCorp. After being informed of the FDIC's decision, the OCC determined that MBank Dallas, N.A. was no longer viable and informed the FRB, which then demanded repayment of discount window borrowings from the Federal Reserve Bank of Dallas. MBank Dallas was unable to meet the demand for repayment and the OCC declared it liquidity insolvent. An additional 19 MCorp banks were declared book insolvent by the OCC on March 28 and 29, 1989. Although many of the banks were insolvent as a result of losses identified by the OCC's examinations, a number became insolvent through losses suffered from intracompany loans in the form of federal funds sold to and deposits placed with MBank Dallas and MBank Houston.

Under emergency procedures, the OCC granted the FDIC's request to charter the Deposit Insurance Bridge Bank, N.A. (DIBB). As receiver for the 20 failed MBanks, the FDIC purchased and assumed selected assets and liabilities of those banks into DIBB. Former MBank Dallas President James Gardner was hired to manage DIBB for the FDIC.

As a result of these actions, the FDIC reopened the bidding process and asked interested parties to submit proposals on DIBB only. On June 30, 1989, the FDIC announced that BancOne of Ohio had been selected to acquire DIBB under a structure similar to that utilized for NCNB-TX. On July 5, 1989, DIBB was renamed BancOne Texas, N.A. (BOT). BancOne will hold a minority interest in BOT and will acquire 100 percent of its shares over a period of 5 years.

The remaining five MBanks and MTrust Corp., N.A. continue to be owned and operated by MCorp. Resolution of MCorp's plan of reorganization under Chapter 11 bankruptcy proceedings has yet to be finalized.

National Bancshares Corp. (NBC) Texas American Bancshares, Inc. (TAB)

NBC and TAB had also suffered heavy losses from energy and real estate related credits, resulting in undercapitalization of a significant number of their banking subsidiaries. The FDIC's assistance was sought. The FDIC agreed to consider proposals by parties working with NBC and TAB management and other interested bidders. Although NBC and TAB are separate bank holding companies located in San Antonio and Fort Worth respectively, their fates became linked when the FDIC announced on July 20, 1988 that an agreement in principle to provide 13(c) open bank assistance for the acquisition of both companies had been reached with Carl Pohlad.

After due diligence reviews were performed, Mr. Pohlad requested substantially more assistance than had been anticipated by the FDIC. Consequently, the FDIC reopened the bidding process in late 1988. Bids were solicited for the companies on an individual and/or combined basis. While bidding was in process, the OCC began examinations of all the national banking subsidiaries of NBC and TAB in March 1989.

During the examinations, TAB's liquidity continued to erode and became heavily dependent on intracompany borrowings. The TAB examinations identified heavy loan losses and noted that substantial provisions were necessary to restore the adequacy of the ALLL. Accounting entries to write down loan losses and restore the ALLL depleted the primary capital accounts at a number of TAB banks. The NBC examinations disclosed continued weakening of NBC San Antonio's liquidity; intracompany borrowings were limited to four affiliate banks. Loan losses and required provisions to the ALLL depleted the equity capital accounts at a majority of NBC banks.

After reviewing a number of alternatives to rectify the situation at NBC and TAB, the FDIC Board determined that the FDIC would not provide any open bank assistance for any purpose in connection with the banking subsidiaries of TAB. Without FDIC open bank assistance, the OCC declared TAB Fort Worth insolvent on July 20, 1989 because its assets no longer exceeded its liabilities. An additional ten TAB banks were declared book insolvent based on the depletion of their primary capital accounts through loan and operating losses. The remaining TAB banks became insolvent as a result of losses suffered on intracompany [illegible]

TAB Fort Worth in the form of federal funds sold. The losses suffered from federal funds sold do not necessarily represent all losses that may be suffered by the TAB banks in their claims against the receivership estate of TAB Fort Worth.

Under emergency procedures, the OCC granted the FDIC's request to charter the Texas American Bridge Bank, N.A. (TABB). TABB will be operated under an interim management contract between the FDIC and TexOp Bancshares, Inc., owned by Ronald Steinhart. Subsequent to an interim review period of approximately 120 days, Mr. Steinhart's Texas state-chartered bank, Deposit Guaranty Bank, will purchase and assume selected assets and liabilities of TABB.

On July 21, 1989, the FDIC also announced that an open bank assistance agreement had been reached with the Equimark Corporation of Pittsburgh to acquire NBC. Unlike the RBC, MCorp, and TAB transactions, this transaction will provide some form of settlement to NBC's shareholders and creditors. The FDIC is confident that this transaction will be completed without the delays experienced in the First City open bank transaction.

Delora Ng Jee
Manager, Supervisory Analysis
Multinational and Regional Bank Supervision

Recent Corporate Decisions

On April 4, 1989, the Office denied a bank's request to reduce its capital by $400,000. The request was filed in conjunction with an application to merge with an affiliate bank that was in less than satisfactory condition. The terms of the merger agreement called for the acquiring bank to pay $400,000 as consideration for the target bank; however, because the banks were affiliated, the consideration had to be treated as a reduction in capital. Because of the poor condition of the target bank and because the capital reduction would have left the resulting bank in a weakened condition, the request was denied.

On April 17, 1989, a bank was notified that the waiver it requested under the Management Interlocks Revision Act of 1988 (MIRA) was unavailable because the MIRA exemption is available only to directors and not to executive officers of banks. The bank had requested a waiver to allow the chairperson, president and chief executive officer of a subsidiary of a diversified savings and loan holding company to serve on the board of the national bank.

On April 24, 1989, the Office denied a Change in Bank Control notice from a Colorado group. The target bank was in less than satisfactory condition and was subsequently closed on April 27, 1989. The notice was denied because the group failed to demonstrate sufficient financial capacity to return the bank's capital to a satisfactory level. In addition, significant omissions and errors in the filers' biographical and financial information caused the Office to question their competence, experience and integrity.

On May 1, 1989, the Office denied a branch application from a bank in less than satisfactory condition, determining that expansion at that time was not appropriate. The applicant bank was in imminent danger of failing and did not provide evidence which showed that establishing the branch would improve the bank's overall condition.

On May 2, 1989, the Office denied a bank's request to offer fiduciary powers, due to the unsatisfactory condition of the bank and because an affiliate bank, which was to provide trust management, was in imminent danger of failure.

On May 4, 1989, Cherry Creek National Bank, Denver, Colorado, was granted permission to establish a wholly owned operating subsidiary which would take title to real estate in satisfaction of debts previously contracted. The real estate consisted of a number of gasoline service station properties in which the bank maintained a security interest and intended to foreclose. One of the reasons given for establishing the subsidiary was to limit the bank's potential liability if the properties were found to contain toxic or hazardous waste. The Office took no position on whether this effort would be successful.

On May 12, 1989, the Office approved the relocation of a branch on the condition that the applicant bank develop and implement certain Community Reinvestment Act (CRA) related policies and procedures. The bank filed the relocation application because the lease on the branch was expiring and the bank was being forced to vacate the premises. A compliance examination, which was completed after the application was filed, identified several CRA deficiencies. In response to the examination findings, the bank's board committed to improve its overall supervision and compliance with the Community Reinvestment Act.

On May 16, 1989, the Office granted approval to Banco Internacional, S.N.C., Mexico City, Mexico, to establish a limited federal branch in Tucson, Arizona. This was the first federal branch application received from a Mexican bank and the first federal branch application for the State of Arizona.

On June 2, 1989, the Office approved a reverse stock split application and a related change in bank control notice for Metro National Bank, Denver, Colorado. The reverse stock split application stated that the elimination of minority shareholders would enhance the possibilities of finding a purchaser to buy the bank and inject much needed capital. Further, the purchase agreement was conditioned upon the seller delivering 100 percent of the bank's stock to the purchaser. Because there were no legal or supervisory impediments to the proposed transactions, the Office approved the applications.

On June 2, 1989, the Office denied a branch application because the applicant bank's condition was less than satisfactory. The bank's condition was so critical that additional capital was necessary if the bank were to remain a viable ongoing concern. The Office's letter to the bank encouraged management to direct its efforts toward restoring the bank to a satisfactory condition prior to expanding.

On June 20, 1989, Chase Manhattan Bank, N.A., New York, New York was granted approval to establish two operating subsidiaries that would [illegible]

agent in connection with commercial and residential mortgage lending activities of the bank and its affiliates. The OCC had previously approved the sale of title insurance by national banks in Interpretive Letter No. 368. However, that interpretation has been challenged by the title insurance industry. It is the Office's position that absent a decision by the court on the merits of the case, the Office should adhere to its previous determination that national banks may sell title insurance as agent.

On June 22, 1989, the Office denied a bank's request to acquire, as an operating subsidiary, 100 percent of an insurance agency that was owned by an affiliate. The bank's condition was considered unsatisfactory and it was expected to fail in the very near future. Further, the Office determined that the subsidiary vehicle was being used to circumvent the dividend restrictions of 12 U.S.C. 60, thereby benefitting shareholders through the repayment of their stock loan. Because the bank was in poor condition and the subsidiary attempted to circumvent 12 U.S.C. 60, permission to acquire the operating subsidiary was denied.

On June 30, 1989, the Office denied a charter application to establish a full service bank in Lake Success, New York. The charter proposal was denied due to weaknesses in the operating plan, lack of diversity and banking experience in the organizing group, and the group's failure to adequately address the Community Reinvestment Act.

Also on June 30, 1989, the Office denied a change in bank control submitted by insiders of a bank in less than satisfactory condition. The filing group, composed of the bank's chairman, chief executive officer and various board members, had failed to take needed action to correct supervisory issues that had been brought to their attention in an earlier Commitment Letter. In addition, continued deterioration in the bank's condition had been documented.

Finally, below is a table of all cross-county branch applications filed with the Office as of June 30, 1989. Eleven cross-county branch applications are pending.

Cross-County Applications as of June 30, 1989

State	*Received*	*Approved*	*Denied*
Alabama	2	0	0
Colorado	2	0	0
Florida	14	13	0
Georgia	1	0	1
Indiana	1	0	0
Kansas	2	1	0
Kentucky	1	0	0
Louisiana	22	22	0
Mississippi	2	2	0
Missouri	2	2	0
New Mexico	1*	0	0
Tennessee	20	20	0
Texas	6*	6	0
Wisconsin	4	2	0
TOTAL	80	68	1

*Includes a corporate reorganization application

During the quarter, the Office approved two cross-county branch applications. On April 24, 1989, First American National Bank, Nashville, Tennessee, was granted approval to relocate a branch in another county, and on June 5, 1989, Clewiston National Bank, Clewiston, Florida, was granted approval to establish a de novo branch across county lines.

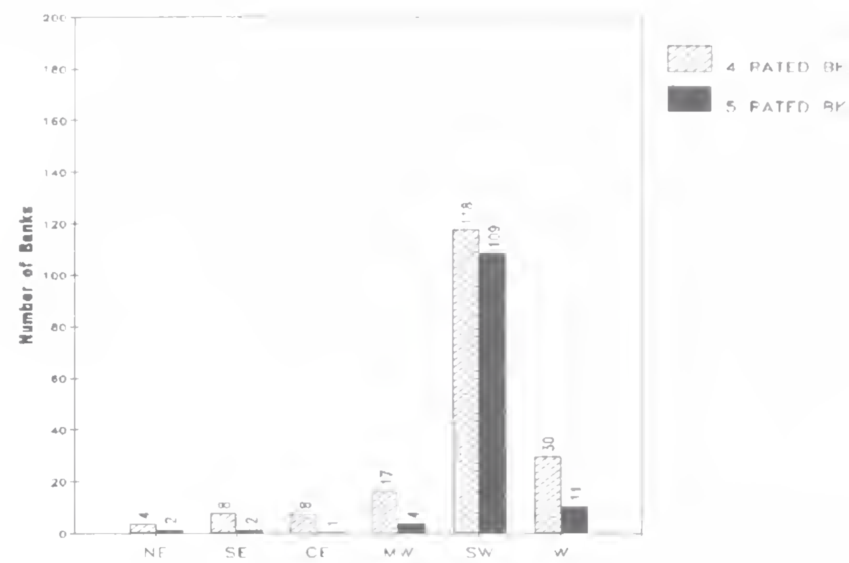
Special Supervision and Enforcement Activities

OCC Special Supervision Division personnel in Washington and the six District Offices are the focal point for community banks which require increased supervisory attention.

The Enforcement and Compliance Division of the Law Department, together with District Counsel, is principally responsible for representing the Office in presenting and litigating administrative actions.

Because the OCC often initiates enforcement actions against banks requiring special supervision, the two divisions work together closely. The following provides information on problem bank trends, national bank failures, and a summary of enforcement actions taken during 1988 and 1989.

PROBLEM BANKS BY DISTRICT



Source: Special Supervision

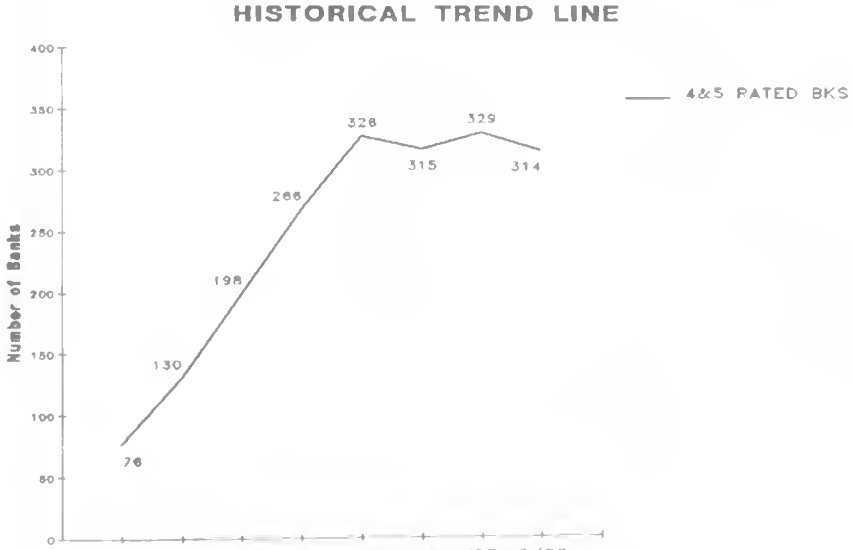
Problem National Banks

The number of problem national banks reached a new high of 329 at the end of 1988, but had declined to 314 as of June 30, 1989. (Banks are assigned ratings on a scale of 1 to 5; banks in the most critical condition are rated 5.) The number has remained relatively constant since 1986. The majority of problem national banks are located in the economically depressed southwestern United States. The OCC's Southwestern District has over 70 percent of the nation's problem national banks. The number of problem banks in the remainder of the country declined from 95 to 87 during the first 6 months of 1989, reflecting improved economic conditions and a more stable banking environment.

Although the outlook for 5 rated national banks is generally not good, not all of them fail. The following chart shows the number rejuvenated through capital injections, financial assistance from the Federal Deposit Insurance Corporation (FDIC) under Section 13(c) of the Federal Deposit Insurance Act, administrative remedies, and efforts by management and the boards of directors.

Innovative solutions by both regulators and interested buyers of troubled banks have become increasingly necessary, particularly in the economically depressed areas of the country.

PROBLEM NATIONAL BANK HISTORICAL TREND LINE



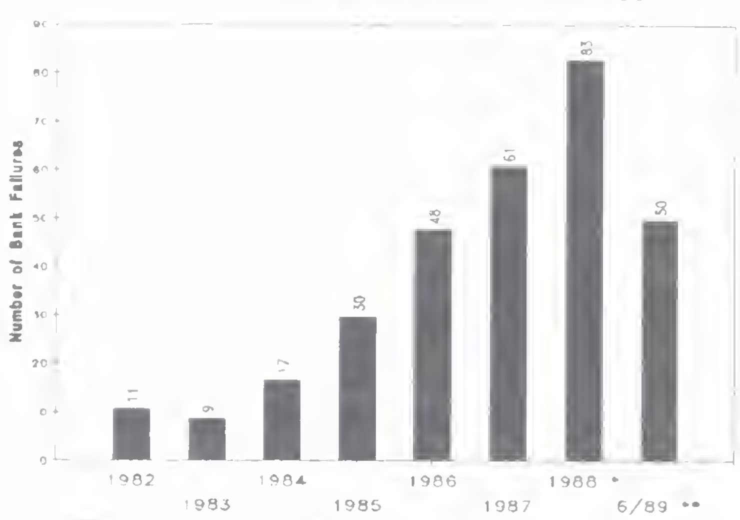
Source: Special Supervision

FAILED BANK SAVED BANK COMPARISON

National Bank Failures

National bank failures have increased steadily since 1983. The overall number of critical banks and resulting failures during 1988 reached a new high. Fifty-two community national banks failed during 1988. Thirty-one additional First RepublicBank Corporation subsidiary national banks also failed, which brought the number of national bank failures to a post-Depression record. The 200 total bank failures in 1988 is another post-Depression record. Through June 30, 1989, 50 national banks were declared insolvent, 20 of these banks were part of a large regional bank corporation in the Southwestern District. National bank failures in 1989 should eclipse the 1988 record total. A significant decline is foreseen thereafter.

NATIONAL BANK FAILURES

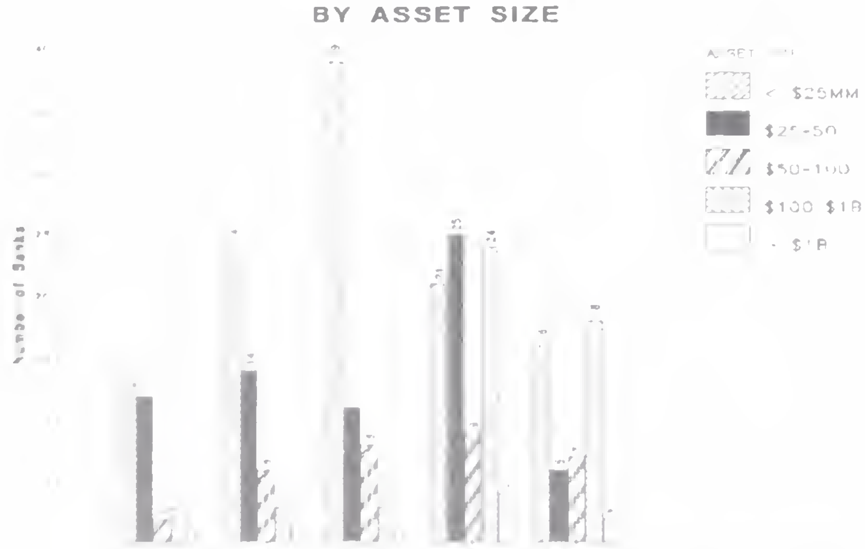


* Includes 31 First RepublicBank Corp. Subsidiaries
** Includes 20 MCorp subsidiaries

Source: Special Supervision

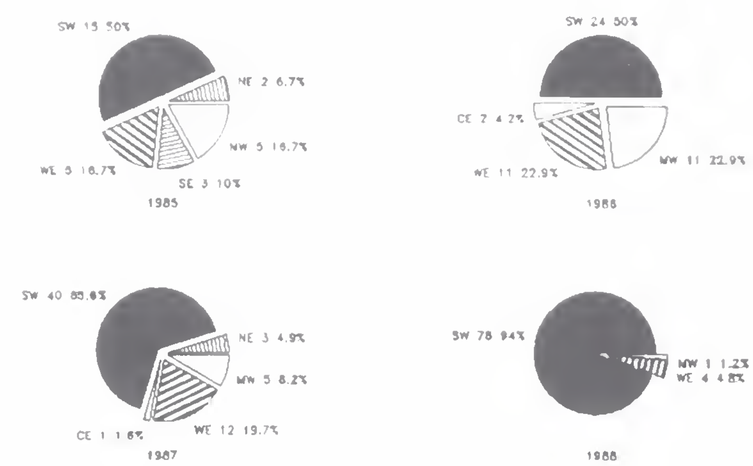
The failure of the many subsidiaries of certain large Southwest regional bank corporations also has affected the statistics on size of failed national banks. In previous years, most failed national banks had less than $25 million in total assets. In 1988 and 1989, the national bank failures were more evenly distributed by asset size. The most failures occurred in banks with $100 million to $1 billion in total assets. However, many small banks with total assets less than $25 million continue to fail.

FAILED NATIONAL BANKS BY ASSET SIZE



Nearly all national bank failures were in the OCC's Southwestern District, since most problem banks are located in that area. Forty of the 50 year-to-date failures were in Texas. Louisiana had the next highest total (3).

NATIONAL BANK FAILURES BY DISTRICT



Source: Special Supervision

Advisory Letters

The OCC recently issued three advisory letters dealing with situations which contributed to the failure of national banks. The first, AL 88-6, dealt with change of control schemes. The situation which prompted the issuance of the advisory letter involved a group attempting to take control of a bank by purchasing the owner's bank stock loan from the lending bank. The required change in bank control application was never filed. The group quickly made unauthorized, illegal wire transfer and cashier's check transactions which caused great loss to the bank. Two national banks involved in this scheme failed in 1988.

The advisory letter draws attention to the fact that the acquisition of bank stock through loan foreclosure may not be exempt from the prior notice requirements of the Change in Bank Control Act. There is no exemption if the loan is in default when acquired, if the loan was made or acquired with the intent to obtain the stock, or if the foreclosed bank stock was purchased.

The second, AL 89-1, concerned fraudulent municipal lease transactions. Activities in the scheme which prompted this advisory letter included discounting the same lease at more than one institution, pledging leases which had been previously sold or paid off, misrepresenting the ownership of leases, and making payments to conceal default by the obligor. A number of national banks became involved in this scheme. Two banks have failed due, in part, to this involvement.

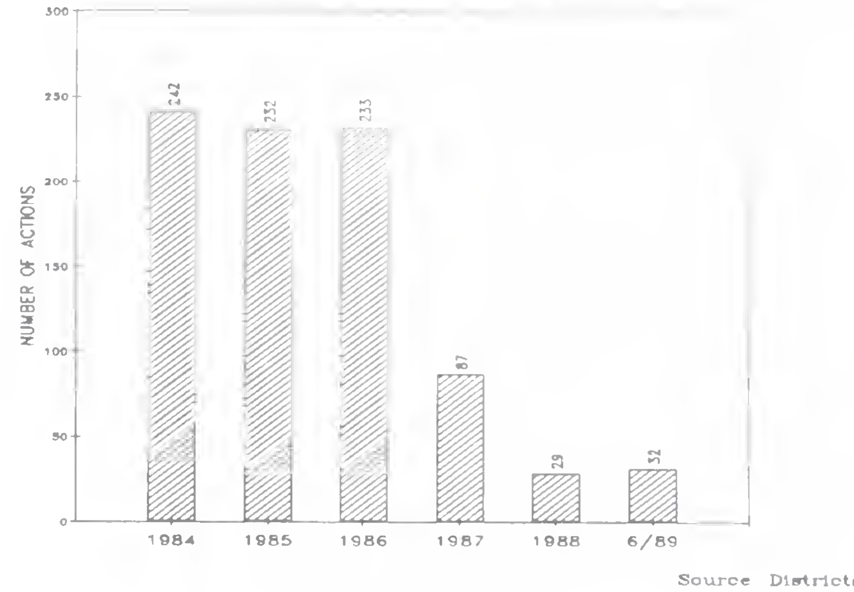
The most recent advisory letter, AL 89-5, warns national banks about purchasing notes collateralized by worthless or overvalued insurance annuities. An insurance

company sold annuities to individuals. The individuals obtained financing to purchase the annuities from an intermediary. In exchange for this financing, the intermediary received promissory notes collateralized by the annuities. The intermediary then sold the notes to a bank. Most of the individuals who are liable on the notes lack the financial resources to make payments on them without the annuity income. It has been determined that the insurance company did not properly record the annuities or establish adequate reserves for their payment. Subsequently, the insurance company was declared insolvent. Thus, it appears there will be no annuity income from the insurance company, and the purchasing bank may suffer a sigificant loss. This advisory letter informs bankers engaged in financing or discounting annuity contracts of their responsibility for prudent underwriting standards.

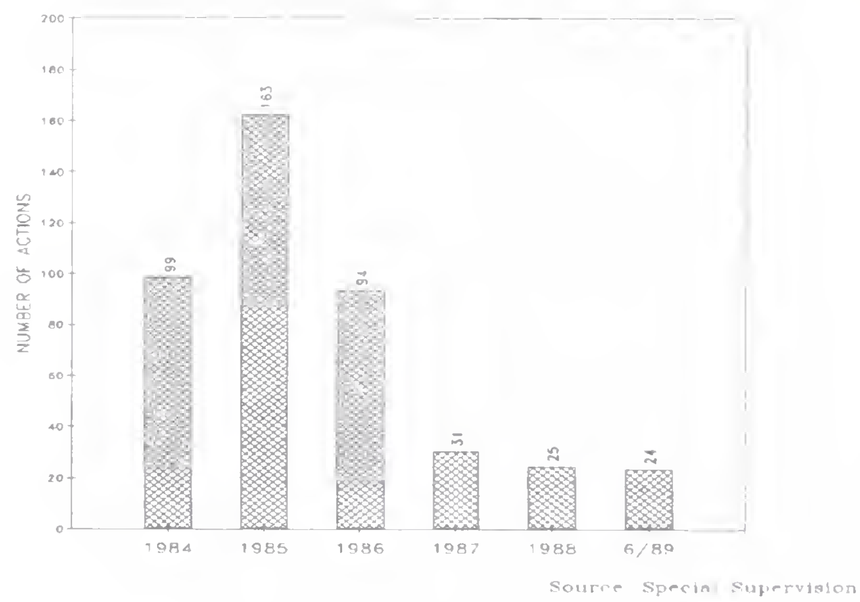
Enforcement Actions

In 1988, the Office revised its Enforcement Policy to include guidelines on public disclosure of enforcement actions. This policy has been adopted to formalize the method by which an enforcement action would be made public. In making an administrative action public, the OCC would generally weigh the benefits of educating the public, protecting the bank's customers, and preventing future problems against the potential for harm caused by public disclosure. The number of new administrative actions taken in 1989 is somewhat ahead of the 1988 pace, but is below that of prior years. The OCC believes that the decline in enforcement actions compared to prior years reflects several factors, including the reduction in the number of new problem banks (except in the Southwestern District.)

FORMAL AGREEMENTS

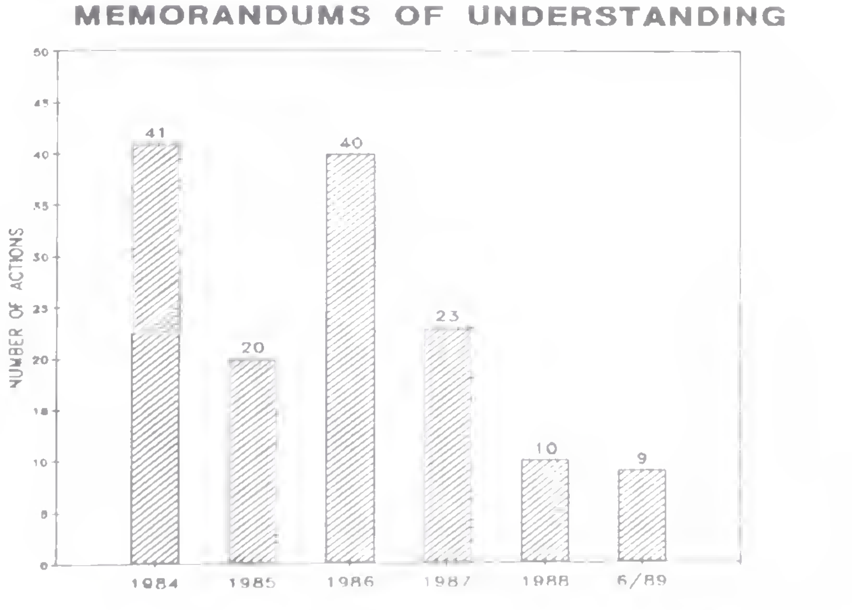


ORDERS TO CEASE AND DESIST



Some supervisory problems that previously would have been handled through administrative action were handled less formally. An example is a signed Commitment Letter which represents a pledge by the board of directors to take corrective action to address problems cited.

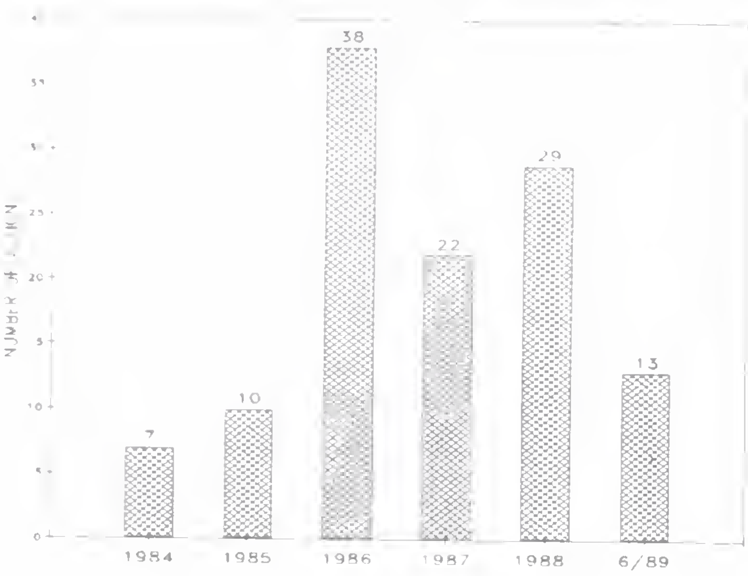
MEMORANDUMS OF UNDERSTANDING



COMMITMENT LETTERS

Occasionally, the OCC is compelled to order the removal from banking of bank officers and directors who have violated the law and/or acted in an unsafe and unsound manner. Twenty-nine orders of removal were issued in 1988, and another 13 have been issued thus far in 1989.

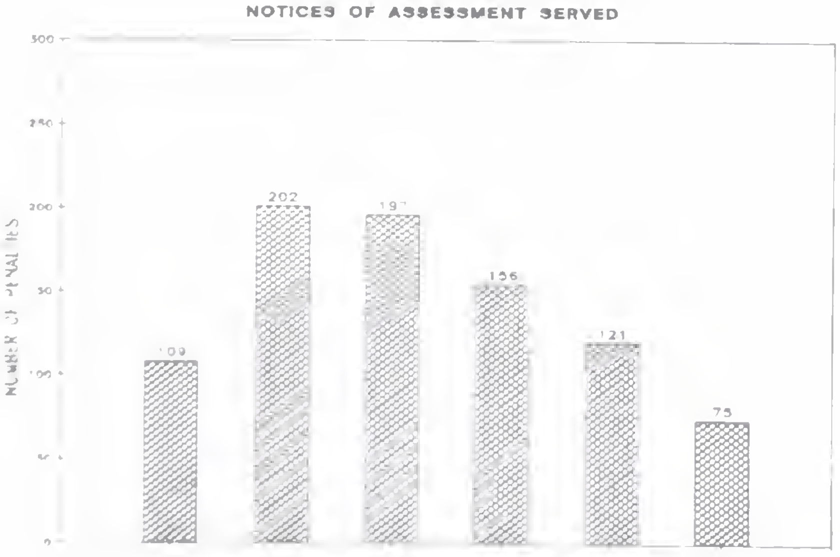
ORDERS OF REMOVAL



Source: Chief Counsel

A civil money penalty can effectively deter or encourage correction of violations of laws, regulations, and cease and desist orders. Such a penalty may deter similar violations both by the persons against whom the penalties were assessed and by other banks and bankers. In an effort to streamline the administrative process, a delegation of increased authority to OCC's District offices was accomplished during 1988. Through the first 6 months of 1989, 75 notices of assessment have been served. This represents an increased use of this enforcement authority over 1988.

CIVIL MONEY PENALTIES
NOTICES OF ASSESSMENT SERVED



Source: Chief Counsel

[illegible] of the OCC's recent enforcement cases are [illegible] below. These cases have been chosen because they represent the types of actions taken by the [illegible] [illegible]

In a civil money penalty action, the former president of a national bank was ordered to pay a $25,000 penalty for violations of the bank's lending limit. The respondent had authorized over $400,000 in loans which were attributed to a single borrower. Many of the loans were made to nominee borrowers, and the violation resulted in losses of over $300,000 to the bank. The losses ultimately contributed to the bank's failure.

In a litigated civil money penalty action, the Comptroller assessed a $15,000 penalty against one director of a national bank, and $10,000 penalties against four other directors for violations of a cease and desist order and an amended order which had been issued against the bank, and to which the directors had stipulated. In the notice of assessment, the OCC alleged that the directors had failed to comply with ten articles of the order and amended order. Following an administrative hearing and the administrative law judge's recommended decision, the Comptroller found that the directors had violated nine of the articles in the order and the amended order. The violations involved the directors' failure to correct weaknesses in the bank's lending function, failure to identify problem loans, and failure to properly approve expenses. Despite repeated warnings by the OCC that continued noncompliance with the order and amended order could result in the assessment of penalties, the hearing record disclosed repeated and continuing violations of the order and amended order. In assessing the aforementioned penalties, the Comptroller determined that the directors failed to diligently carry out the lawful requirements of the order and amended order, and that their compliance was intermittent and incomplete.

In another litigated case, the Comptroller issued a cease and desist order against a bank which had engaged in violations of law, unsafe and unsound banking practices, and violations of a formal written agreement which had been issued against the bank and consented to by its directors. In the notice of charges, the OCC alleged that the bank had violated its lending limit on loans made to an Indian tribe. The OCC also charged that the bank had engaged in numerous unsafe and unsound practices, including accumulating an excessive level of criticized assets and credit exceptions, inadequately administering its lending function and operating with an inadequate allowance for loan and lease losses. In addition, the OCC charged that the bank had engaged in violations of a formal agreement, including failure to establish a loan review system, maintain current and satisfactory credit information and develop a capital program. Following an administrative hearing and after the administrative law judge recommended a decision, the Comptroller rejected the bank's argument that the loans to the Indian tribe were the equivalent of loans made to a state or

foreign government, and thus exempt from the general lending limit requirement, and found that the bank had violated 12 U.S.C. § 84. The Comptroller also found that the bank had engaged in the aforementioned unsafe and unsound practices and violations of the formal agreement. Accordingly, the Comptroller issued an order which requires the bank to take remedial measures to address the violations and unsafe practices.

The OCC initiated removal actions against a bank's president and director for violations of law and unsafe and unsound practices involving the bank's mortgage servicing affiliate. The affiliate was engaged in mortgage servicing and selling interests in pooled mortgages on the secondary market. The uncertain financial condition of the affiliate placed funds that the bank had loaned or invested in the affiliate in jeopardy, threatening the solvency of the institution. Eventually the mortgage servicing rights of the affiliate were revoked, prompting the bank's failure. The OCC has charged that the activities of the president and director with regard to the affiliate constituted violations of law and unsafe and unsound practices that form the basis for removal actions. The matter is to be assigned to an administrative law judge and scheduled for hearing.

In another significant case, the OCC commenced a formal investigation into the affairs of several community banks which were taken over by a group of affiliated individuals who, once in control, allegedly disbursed funds to themselves and entities controlled by them in an illegal fashion. A portion of the funds were allegedly used by those individuals to facilitate their acquisitions of other banks as part of a highly sophisticated "pyramid scheme." Two of the national banks acquired in this manner have subsequently failed. The purpose of the investigation is to develop evidence to support administrative enforcement actions against the individuals involved, as well as provide documentation for possible criminal referrals.

In a litigated removal action, the Board of Governors of the Federal Reserve System issued a conditional removal order against a former officer and director of a national bank. In the notice of intention to remove, the OCC charged the former officer and director with engaging in violations of law, unsafe and unsound practices and breaches of his fiduciary duty by approving a series of nominee loans, and using the proceeds of the loans for his own benefit. The loans resulted in a loss to the institution of approximately $33,000. Following an administrative hearing and the issuance of a recommended decision by the administrative law judge, the Federal Reserve Board found that the former officer and director had engaged in the charged violations, unsafe practices and breaches of his fiduciary duty, that he had benefited as a result and caused a loss to the bank and that his conduct evidenced his personal dishonesty and a willful and continuing disregard for the bank. The Board therefore issued a removal order against the former officer and director. However, because the respondent was no longer in office when the removal notice was issued against him, the Board stayed the effect of the order pending the conclusion of appellate review in *Stoddard v. Board of Governors*, 868 F.2d 1308 (D.C. Cir. 1989).

A community bank in the Northeastern District stipulated to the issuance of a cease and desist order which required the bank's board of directors to 1) cease purchasing, accepting or otherwise acquiring or funding brokered loans; 2) refile and republish the bank's five most recent reports of condition and income (call reports); 3) charge off sizable loan losses; 4) closely monitor its allowance for loan and lease losses; and 5) inject substantial new capital into the bank. The order was necessary to prevent the bank from booking additional brokered loans, to compel the bank to recognize and charge off losses it had incurred from past acceptance of brokered loans and to notify the public, through the bank's republished call reports, of the extent of poor quality loans previously booked by the bank.

Speeches and Congressional Testimony

Remarks by Robert L. Clarke, Comptroller of the Currency, before the Association of Reserve City Bankers, Hilton Head Island, South Carolina, April 10, 1989

"Old Myths and Current Realities"

Not too long ago, notorious Panamanian strongman Manuel Noriega was being driven through the countryside of Panama when his car, coming around a blind curve, struck and killed a pig. Noriega gave some money to his driver and told him to walk over to the nearest hut and pay the peasant for the pig. Noriega watched as the driver walked to the nearest hut and knocked on the door. A peasant opened the door and the driver spoke for a few seconds. The peasant gave a big smile, grabbed the driver by the arms, pulled him into the hut and slammed the door.

Five minutes passed. Ten minutes passed. Fifteen minutes passed. Finally the driver emerged from the hovel, his arms filed with food and drink. He returned to the car and Noriega asked: "What happened?" The drive answered: "I knocked on the door. The peasant came. I said: 'I'm Noriega's driver. The pig is dead.' And he pulled me in, fed me, gave me much to drink and these gifts."

We all know how easy it is to be misunderstood — for people to receive a message different from the one you are sending — and especially so when they want to believe what they think you are saying.

Such is the case, I believe, with our policy governing the chartering of new national banks, especially now that the thrift crisis has focused attention on bank supervision, including chartering policy.

There is a myth abroad in the land that the OCC is dedicated to granting a bank charter for anyone who meets the standards we set for the integrity of organizers, who can provide the necessary capital and who has the filing fees. In other words, that a charter can be had by a group of people with no criminal record and $3 million. Another myth is that it takes only $2 million. And another myth is that our longstanding support of competition and entry into banking translates into a chartering policy that ignores market conditions.

Not a single one of these myths is correct. It is easy to understand why these misconceptions arise: The OCC chartering policy is procompetitive and it is pro-entry and when its current thrust was developed almost a decade ago, it seemed to critics that it was almost radically so. And at one point years ago, the agency did charter a large number of new national banks during a very short period of time.

However, policies change over time. And it is a good thing that they do, because people find that their old assumptions are no longer valid. Though the thrust developed in 1980 and the accompanying guidelines the agency set still guide us today, we have, in the last 5 years or so, become more discriminating in our judgment in approving new banks.

This is a judgment business and judgments can and do shift within a general policy framework. We have also become more attuned to market conditions. And so have charter applicants themselves. We have done so because we recognize that the marketplace for banking, or, rather, for financial services, has become a much more competitive and much tougher environment in which to operate.

This morning I want to discuss our chartering policy with you, because as prominent leaders of the banking industry you need to know what the facts are.

Our concern at the OCC is that, if the record isn't set straight, we might find ourselves faced with demands that we revise our chartering policy to make it less pro-competitive, and, if that occurs, I believe it would set a harmful precedent for all our supervisory policies. And it would be detrimental to the ultimate beneficiaries of competition: bank customers.

Where to begin? As with so much of banking regulation and supervision, I believe we have to go back to the Great Depression. Among the banking supervisors' primary responsibilities are depositor protection, financial system stability and promoting an efficient, competitive banking environment.

In the aftermath of the Great Depression, promoting competition got short shrift — and it is in danger of getting it again in today's environment. As you know, in the early 1960s, Comptroller of the Currency Jim Saxon began to promote a reemphasis on the competitive factor in supervisory policy. And certainly in recent years, banking performance and rising competition from nonbank institutions have combined to increase the importance of the competitive factor.

Since banking began in the United States, virtually all banks have been required to obtain a charter. Historically, chartering was seen as a way to ensure two goals. One, that the supply of banking resources didn't exceed the demand for banking resources in a given market, and, two, that the dishonest, the inept and the

[illegible] up operating banks. Failure to achieve either of these goals, it was believed, could lead to bank failures and depositor losses. On the other hand, restrictive chartering was never promoted as a means to eliminate bank failures entirely.

From the beginning people recognized that a banking system where no institution failed was a banking system that was stagnant, a banking system that likely didn't serve all the needs that were demanded of it. But control over entry to the market was seen as a way to keep failures at an "acceptable" level, and the definition of what was "acceptable" changed as circumstances changed.

As you all are more than aware, the results of banking supervision are often ironic. Restrictions originally adopted to promote safe and sound banking can adversely affect banking competition. Chartering requirements that are implemented to ensure the stability of the financial system can promote instability over time if, by inhibiting entry into a market, they insulate existing institutions from competitive pressures.

Why? Over time, insulated institutions tend to become less responsive to customer needs. Customers likely pay higher prices for services than would be the case with increased competition and the services themselves are likely to be narrower in range and lower in quality. The providers, the institutions, become less effective and efficient, and therefore, ultimately less sound. The more restrictive the chartering requirements, the harder it is for new banks to enter a market. The harder it is for new banks to enter the market, the lower the competitive pressures on existing banks. The lower the competitive pressures on existing banks, the less responsive they are, all other factors being equal. And the less responsive a bank is, the less sound it is likely to be in the long run.

Competition is good for the customer, and it is good for the producer. Look at the U.S. auto industry. It is producing a better product today because competitors forced it to. And in doing so, it's also producing a lot of [illegible]

Of course, the banking markets in the major cities where your banks operate are competitive. But that is [illegible]

[illegible]

more bank failures, markets will deliver services effectively and efficiently, and all needs will be served. In real world terms, however, these supervisory goals are not complementary; supervision involves trade offs.

For the reasons I've described, such is the case with chartering policy. As a result, chartering policies and standards have changed over time, as policy makers have weighed bank failures against competitive considerations, balanced the safety and soundness of the banking system against its competitive vitality.

Now as you all know, the National Bank Act and other laws set the mechanical requirements, minimum capital and so on, for the chartering of a national bank. Of course, since a new national bank automatically receives federal deposit insurance, the OCC is also required by the Federal Deposit Insurance Act to consider the same factors that would be evaluated by the FDIC in insurance applications under its jurisdiction.

In the course of carrying out our responsibilities under the law, we require the proponents of a new bank to file an application with us, and this application becomes the basis for an extensive investigation. We evaluate the proposed bank's organizing group — the character and experience of the organizers — and the group's operating plan, the adequacy of its initial capital, the ability, experience and expertise of the proposed management, and proposed bank earnings.

This direction, our current emphasis on the organizing group and its operating plan, was set by the agency, as I mentioned before, in 1980 in the Carter Administration.

Before 1980, the agency placed more emphasis on the competitive and economic characteristics of the market where the proposed bank would operate, for example, the effects on other banks or the need in the market for another bank.

In announcing the change in direction, we noted: "This shift in emphasis reflects the OCC's experience that a strong organizing group with solid financial backing and a well-conceived and developed operating plan generally is able to establish and operate a successful bank even in the most economically distressed or more highly competitive markets."

Let's focus on the three principal elements in that statement. A new bank will be successful generally where (1) the organizing group is strong, (2) it has solid financial backing and (3) it has a well conceived and developed operating plan. If any of those elements are lacking, the new bank's chances for success will [illegible]

Clearly, this new direction had two goals. To give qualified people with adequate resources an opportunity to organize and operate national banks, while at the same time building the vitality of the banking system by exposing established banks to the increased competition that new banks would bring.

There is no doubt that the adoption of this new policy resulted in an increase in charter applications and approvals, with a concurrent decline in denials. In 1980, we approved 107 applications for new charters. In 1981 we approved 184 applications. In 1982, we approved 297. And in 1983, we approved 269. In 1980, we denied 13 applications. In 1981 we denied 5. In 1982 we denied 4. And in 1983, we denied 31.

But beginning in 1983, things began to change. The denial rate increased, reflecting, among other things, the inability of organizing groups to design operating plans to succeed in today's highly competitive marketplace.

Another way to say that is: We began to do a tougher analysis of a proposed bank's operating plan in light of its competitive environment. We placed more responsibility on organizing groups, for example, by holding the organizers personally accountable for the content of their plans.

Since September 1985, we have required most organizing groups to provide information on their proposed chief executive officer as part of their application, rather than designating the chief executive officer after preliminary approval, as was the case before. In 1986, we adopted guidelines on minimum policies and procedures that we require new banks to follow as standard charter conditions. The policies and procedures for new banks are as familiar to you as your own faces, formal policies for lending, funds management and audit, for example, but they may be news to the organizers of a new bank.

In other words, the office wanted to make sure that we more effectively screened organizers primarily for their qualifications, but also for their intentions: Did they understand banking and the competitive marketplace they wanted to enter? Did they exhibit a good knowledge of that marketplace? How were they going to compete? Why did they think they were going to be successful? And while we were screening them, we wanted to drive home some points about what we would expect from them.

Because of these efforts, combined with changes in the marketplace, changes like greater competition, changes like weakening in local economies, the number of applications for new banks we received began to decline, as did the number of approvals, and the number of denials began to rise. In 1984, we approved 131 applications and denied 38. In 1985, we approved 116 and denied 58. Most recently, in 1988, charter applications again began to rise. We acted on 106. We denied nine of them, slightly less than the percentage of applications we denied the year before.

But these numbers are not comparable to the number that came before. Why? Because of pre-screening, we think we are receiving better final applications now than we did before. Our standards today on the management for new banks are tougher and our standards on operating plans of new banks are tougher. And our higher capital demands for new banks today impose a market test: some proposed banks never open because they are unable to raise the required capital.

These situations are not reflected in our denial rate. Our efforts, to put it simply, are aimed at one target. To make sure groups of good organizers have an opportunity to set up a national bank, while ensuring that groups of bad organizers don't.

Because the market is tougher, we expect new banks will have more capital than bank organizers were required to have several years ago. And we want new banks to have more effective management. If new banks have these resources, we believe most of them can weather the competitive storm of banking. We don't have a magical formula. But we do have our judgment. And experience shows that our judgment is getting better all the time.

We will continue to foster competition through the chartering of national banks. We will continue to look favorably on proposed banks that will likely be operated in a safe and sound manner. We will continue to approve applications for banks that have a reasonable likelihood of success. Organizing groups are now subject to stringent standards. And they will continue to be.

But it is not — nor we hope, will it ever be — the policy of the OCC to ensure that a proposal for a new bank is without risk. It is not — nor, we hope, will it ever be — the policy of the OCC to protect existing banks from the competition that a new bank will provide.

I've tried to think of an analogy that describes our policy, an analogy that may not be perfect, because no analogy is, but one that may be apt. It seems to me that our policy is like a track on which a track team trains to jump hurdles. We want to make sure that new entrants into the banking race are in shape to run the course and be winners. To do so, we put them through the paces on the track. The current track was designed and built in 1980. But since then, we've raised the hurdles a

[illegible] or two so that the marginal runner won't make it into the competition.

We constantly review our chartering procedures to strengthen the process so that only well qualified applicants receive approval. We continue searching for better methods to evaluate organizing groups and their plans and to strengthen the chartering process.

I decided to talk about the facts of our chartering policy with you today because I believe there is a great need for the facts to be more widely known. True, in one sense, facts are in the eye of the beholder.

A friend of mine recently told me about an incident that happened when he was a boy in the mountains of Tennessee. A man in his home town got sick and went to a doctor. The doctor treated him for a month or so, but he seemed to get worse. Finally, the doctor told him that he thought he needed a change of climate and suggested that he go to Florida for the rest of the winter. The man moved to Florida, stayed out in the sun and got a good suntan, but in about 2 weeks, he died. His body was shipped back to Tennessee. At his furneral, two of his old friends came by his casket to view him for the last time. One friend said to the other, "You know, those two weeks in Florida sure did Sam a world of good — he ain't never looked better."

But even taking personal interpretation into account, no one can ignore the fact that much has changed in OCC chartering policy since 1980. Much has changed in just the last 5 years. And I expect more change to come.

That change can be procompetitive, if we are allowed to continue in the direction we set for ourselves back in 1980. Or it can become anti-competitive, if chartering requirements come to be seen, and used, as merely one more tool for the prevention of bank failures at whatever cost.

I'm not ashamed to say that I'm procompetitive and that I believe that competition strengthens the banking system in the long term. It does not weaken it. And I know that you join me in hoping that our procompetitive stance in chartering, tempered by our careful judgment in each individual case, remains an important part of our procompetitive philosophy toward bank supervision.

Remarks by Robert L. Clarke, Comptroller of the Currency, before the New York Bankers Association, Boca Raton, Florida, May 8, 1989

Once there was a preacher in Texas who owned a remarkable horse. The preacher had owned the horse since it was a foal and, in fact, had broken it to saddle. The horse was remarkable because the preacher had trained it to go only if the rider said, "Praise the Lord," and it would stop only if the rider said, "Amen."

One day, the preacher hit hard times and had to sell the horse. When he explained the horse's peculiarities to a prospective buyer, the buyer said, "That's ridiculous. I've been raising horses all my life. I'll make him go my way." So he jumped on the horse and kicked him. Nothing happened. He kicked the horse harder. Nothing happened. Finally, the prospective buyer reached into his pocket and brought out a pair of sharp spurs. He put them on and kicked the horse again. The horse went faster and faster. Worried, the buyer reined back and yelled, "Whoa!" [illegible] but the horse wouldn't stop.

[illegible] the man saw they were galloping toward the [illegible] cliff. Desperately he yelled, "Oh all right [illegible]." The horse screeched to a halt just in time, [illegible] the edge of the cliff, the man wiped the perspiration from his brow. "Whew," he said, "Praise the Lord!"

After the last several weeks in Washington, I've come to the conclusion that participating in the legislative process feels a lot like riding a horse that you have no control over. Hanging on seems to become a matter of life or death. The speed is sometimes dizzying. There are abrupt changes in direction. The ups and downs of the rise can become disorienting. And just when you think you're headed for disaster, the action shifts or stops.

Such has certainly been the case with the thrift bill in Congress. And we're still far from the end of the ride. Yes, it has been wild, but in the House of Representatives, at least, the process is, in one respect — capital standards for thrifts — producing a good product. Not perfect, but good.

We've seen that the open, democratic deliberations in the House, in full view of the media and of special interests, have made the ride wild. But they have [illegible]

produced a reasonable response to the capital part of the thrift crisis and have led the lawmakers to make hard decisions, for which the lawmakers deserve credit and commendation

To prepare you for the rest of the trip, I'd like to talk with you today about what the ride has been like so far. And I'd like to stress the process more than the product, that is to say, the nuts and bolts of the legislation. Because the process will ultimately determine what the legislation will be

First of all, the philosophical underpinning of the Administration's proposal is "never again." Never again do we want to be back asking the Congress or the taxpayer to pick up all or part of the tab for a deposit insurance failure. In the OCC's opinion, as many of you know, the keystone of the "never again" requirement is capital requirements for the savings and loan industry going forward. We were brought into the process because the Administration's proposal calls for thrifts to maintain capital standards no less stringent than those applicable to national banks. In other words, the OCC capital standards for national banks would become the benchmark for the capital standards of the thrift industry.

There was wisdom in that approach, intentional and unintentional. We were intentionally brought into the legislative picture because, when it comes to national bank capital, we don't find funny business amusing in the least. Perhaps that is the reason why grandfathered goodwill represents less than 0.5 percent of the total capital of the national banking system today (and even that will be eliminated by yearend 1992), while for thrifts, it is estimated now to represent more than 36 percent of existing capital.

At the OCC, goodwill, like peace on earth, has been something valued as an ideal, but something rarely realized in any practical way in the real world

When the Administration proposed making our standards for national banks the standards for the thrifts, we were unintentionally brought into the legislative picture to be an unbiased, disinterested, and credible source of information on what capital is and the role that capital plays.

We view capital, at national banks and at thrifts, as a necessity. Institutions need to have the financial resources to absorb losses and, because our standards represent significant owners' investment, to provide incentive for the prudent operation of the institution. The lack of capital requirements, and, in particular, the lack of incentive for prudent operations — that is to say, the risk of loss of investment — has been a key factor underlying the thrift industry crisis. Of course, by having financial resources, by having capital, institutions protect the deposit insurance fund

Now, being bankers, you live and breathe complex financial and accounting concepts. But for a moment I would like you to imagine yourselves as members of Congress

Even among the 21 members of the Senate Banking Committee or the 51 members of the House Banking Committee, lawmakers with an academic background in finance, accounting or economics are uncommon. Therefore, as a member of Congress, you probably don't have a broad technical understanding of what capital is or what it is supposed to do. And you are being bombarded with arcane financial information.

To make matters worse, capital standards for national banks, as well as standards for other federally insured banks, are about to undergo a transition, thus adding tremendous confusion to an already complex picture. Our current standard is straightforward: 5.5 percent of total assets for primary capital and 6 percent of total assets for total capital. But that standard has a short remaining life.

As you know, the OCC, the Federal Reserve Board and the Federal Deposit Insurance Corporation have adopted risk-based capital guidelines that will become effective in two stages beginning on December 31, 1990. By yearend 1992, we will require capital to be at least 8 percent of risk-weighted assets.

It is also important to note that under our risk-adjusted capital guidelines, we have redefined "capital" to place greater emphasis on "hard, equity capital" as opposed to "soft capital" components such as the current inclusion of the loan loss reserve. In addition, regardless of risk-weighting, the OCC is pursuing a minimum core capital-to-total-assets requirement of at least 3 percent — the so-called "leverage ratio."

Now you've been able to follow what I've said because you have followed the recent evolution of capital standards and you've likely spent a lifetime in finance

The next time you have a physical, turn the tables and try explaining capital standards to your doctor before he explains in medical terms your results on your tests. At the beginning of our ride on the thrift bill, your typical lawmaker had an understanding of the issue on the same level as your doctor does

No wonder that the thrift industry was able to sell some members of Congress on the idea that goodwill really was as good as equity capital — for a little while. For a

[illegible] independent [illegible] the need for [illegible]?

[illegible] the House, through the extraordinarily fair and [illegible] approach to marking-up the thrift legislation taken by Chairman Frank Annunzio of the Financial Institutions Subcommittee and by Chairman Henry Gonzalez of the House Banking Committee, all the members were heard, all the members were allowed to debate, and all the members were allowed to vote amendments up or down. It was government in the sunshine at its best.

On capital standards, I agree with New York Congressman Chuck Schumer that the members of the House Banking Committee did the Committee "proud" in handling the legislation.

They were pulled every which way while trying to chart the correct course. On the Democractic side, Chairman Gonzalez, Chuck Schumer and Bruce Vento worked quite hard on getting and on keeping the capital standards issue on track. And the senior Republicans on the Committee, Chalmers Wylie from Ohio and Jim Leach from Iowa, also provided needed direction so that the correct course on capital standards could be followed.

The Banking Committee and the Financial Institutions Subcommittee spent approximately 75 hours considering the legislation in an open forum. The Banking Committee considered more than 100 amendments, and almost twice that many had been filed earlier with the subcommittee.

The mark-ups were quite a test of wills for many of the members. Things sometimes got very tense. But standoffs were avoided — often through the intelligent, witty intervention of Barney Frank and Gerry Kleczka.

Attempts to gut any real capital standards for thrifts were repeatedly fought off. Furthermore, the deliberations themselves were educational, in the purest sense of that word, which is not a shocking result to any advocate of democracy. Along the way the House Banking Committee members educated themselves as to what capital is and what it does. The cheap and [illegible] offerings in the marketplace of ideas were [illegible]. Tom McMillen surfaced as a scholar on national bank capital standards and served as a major [illegible] force.

[illegible] say that the OCC played a small but [illegible] role in this effort as well. We wrote [illegible] the Senate and the House Banking [illegible] capital [illegible] invested capital, the need for capital, the types of capital, and why real, hard capital is better than intangibles such as goodwill.

We also held many briefings for House Banking Committee members and for staff on the specifics of national bank capital standards. We urged the Senate Banking Committee not to allow a thrift to live with a capital base made up totally of intangibles like goodwill. We pointed out that a requirement for tangible capital was nonexistent in the bill passed by the Senate Banking Committee.

As you may know, the Senate Committee's legislation was amended on the Senate floor by Senator Howard Metzenbaum to require thrifts to hold tangible, real, hard capital of at least 1.5 percent of total assets, the same capital standard that Chairman Annunzio's subcommittee had recommended.

But you probably don't know that Senator Metzenbaum, who is not a member of the Banking Committee, was acting on the advice of consumer groups, consumer groups that could not abide a capital standard built of ephemeral assets like goodwill. Senator Metzenbaum and the consumer groups should be congratulated.

Where do we go from here? How wild will the ride be from here on? Well, when it comes to anything in Congress, it is dangerous to forecast. I've heard of the time Senator Moynihan and Senator D'Amato were having lunch together in the Senate dining room when a messenger approached the table with an envelope which bore the inscription, "To New York's Greatest Living Statesman." Senator Moynihan took the envelope, handed it across the table and said: "For you, Al." Senator D'Amato read the inscription and said, "No, no, Pat" and handed it back to Senator Moynihan. They shilly-shallied back and forth until finally Senator Moynihan was persuaded to open it. He drew out the letter and unfolded it. It began, "Dear Mario."

It's dangerous to guess how anything will turn out in Congress, but one can talk about the vulnerabilities and the opportunities for improvement that the legislation faces from here on. Let's look at what we have and where we are and where we are going.

The House Banking Committee's bill would require thrifts to have cash and other tangible capital equal to at least 3 percent of assets and would give them until 1994 to phase in the capital. The legislation now goes to both the Ways and Means and the Judiciary Committees before continuing to the full House, and after approval there, to a conference committee with the

Senate to resolve differences between the House and Senate bills

In these various arenas, House lawmakers are likely to be exposed to intense pressures to lower the thrift capital standards that the House Banking Committee fought so hard to put in place. It is very important for the House sponsors of the bill to receive your strong support in order to hold the package together when it reaches the floor. Subsequently, there will be enormous maneuvering to persuade the conferees to change the legislation in conference.

But, looking at the situation from the other direction, consideration by the full House and at conference offers two more opportunities to tighten the capital provisions further.

Of particular concern to us is a provision that could be made more stringent. It is the provision that would allow the grandfathering of existing non-financial activities of thrift service corporations without additional capital. This provision would be unfair to thrift competitors like banks. But of more concern, it flies in the face of the prudential supervisory structure the Administration is trying to construct for thrifts.

As far as the Senate's version of the legislation is concerned, the last shot left is the conference. And, of course, the same forces for weakening and strengthening the capital standards for thrifts that will come to bear on the House legislation in conference will come to bear on the Senate version, too. The important point is to recognize that there are doors still open, for good and for ill.

Bankers have two interests in ensuring that the capital standards for thrifts are strengthened. One interest is competitive equity. The other, and I believe far more important, interest is that of safety and soundness. A safe and sound thrift industry strengthens the entire financial services system. An unsafe and unsound thrift industry weakens the entire financial services system. The danger from an unsafe and unsound thrift industry is weeks away from being brought under control: the Administration's thrift bill is weeks away from enactment.

But, if the capital standards for thrifts in the final legislation are reduced from those now in the House Banking Committee bill, we run the risk of repeating this drill in the near future.

The lawmakers who have been leaders in keeping the capital standard for thrifts in the House legislation strongly deserve your thanks, support and help in their future effort.

Remarks by Robert L. Clarke, Comptroller of the Currency, before the Annual Convention of the Texas Bankers Association, San Antonio, Texas, May 11, 1989

Thank you. It is great to be back in Texas. You know, Texans are probably the world's most optimistic people. My dentist in Houston was originally from New York and he was shocked to find just how optimistic Texans were when he moved here right after he left dental school. He told me that his first patient in Houston was an oil millionaire, a wildcatter who got lucky. "I checked his teeth and they were in perfect condition," my dentist said, "so I told him: 'You don't need a thing done.'" "I feel lucky today," countered the millionaire. "Drill anyway."

Yes, Texans are optimistic. Texans believe in good luck. But often, you have to make your own luck if you want to survive and prosper. And often, you have to change the way you do things, because just drilling as you've always done may cease to work when conditions change.

As Comptroller of the Currency, I've had to deal with many problems in Texas banking since I left Houston for Washington 3½ years ago. Believe me, I would in no way underrate the size of the problems I've dealt with and continue to deal with.

On top of their magnitude, I must also grapple with the fact that, as a Texan myself, I'm dealing with people I know, people I've known for a long time. In relative terms, these problems are about as difficult to come to grips with as any problems anyone has faced in an official capacity, if that anyone happens to be an American official in the last third of the 20th century.

Today I want to talk about some of the problems here in Texas. As many — too many — of you know, one important part of our business is a process we call special supervision — supervision of the nationa

[illegible] problem list [illegible] banks that are in financial difficulty and banks that are in danger of failing — banks that receive additional attention from us.

Generally speaking, a national bank does not fail overnight. As you all know only too well, it is a gradual process that often takes several years. When the OCC first detects adverse trends in a bank, it tries to solicit corrective action on the part of the bank's management and board of directors. On-site examination activity increases, and the bank is placed in a special monitoring program. Often, the agency enters into a formal agreement with the bank, or takes an enforcement action, that serves as a "road map" for directing the bank back to a safe and sound condition. Frequently, these agreements or actions include a requirement to achieve and to maintain a level of capital necessary to support the bank's operations and protect its depositors.

It is safe to assume that most banks that fail have failed to meet this capital requirement. I don't have to tell you all that capital is fundamental to the business of banking. And it is the key to prudential bank supervision. It is of crucial importance that Congress understand the role of capital as the lawmakers seek to come to grips with the savings and loan industry crisis. A strong industry can be built only if it has a strong capital foundation.

Why? Capital is a cushion, a buffer, that protects an institution from a hard landing or a crash when it suffers a downturn. It provides funds for a bank's internal needs and for expansion. It represents added security for depositors and the deposit insurance system. And capital serves as the financial stake that stockholders have in the safe and sound operations of a bank.

The amount of capital a bank has determines, from a regulatory standpoint, the amount of business that it can do, how much it can lend, how big it can grow. And when a bank's capital is gone, there is no foundation on which to build business. It is insolvent. It has failed.

Over the last few years, much national attention has focused on the one-time stars of Texas banking, the banks that were the darlings of the investment banking communities: banks such as those in the First Republic and MCorp networks.

We now believe we have the problems in this segment identified and in the process of resolution. But these banks in the one-time stellar category represent only one part of the banking problem in Texas. Subtracting [illegible] holding company networks, about [illegible] national banks in Texas [illegible] OCC special supervision.

Most of these banks are under monitoring and care because we believe their financial condition warrants special attention. And these banks are small institutions — independent institutions — that have seen their capital erode.

While much attention has been focused on the big banking networks, the small institutions have fallen into problems of similar proportion. The big banks may get the publicity because the simple numbers are bigger, but the smaller banks also represent a major problem because they have tremendous impact on their communities.

Why did this situation happen? How can it be dealt with? Why did it happen?

Three factors, I believe, contributed to it. First of all, economic trends. I don't have to go into detail with you about a bad regional economy. You've lived it and are still living it. It's enough to say that just about everything that went boom — oil and gas, agriculture, real estate — deflated. In that banking is, for the most part, a local business, the correlation between the local economy and banking is fairly clear.

Second, many bankers in Texas, if the truth be known, relaxed lending standards as the sustained oil and gas boom lifted the state's economy, sometimes in a too exaggerated response to competitive pressures. The banking business became in some cases a little too much like the venture capital business, but without the reward that the venture capital business can receive for the risk it takes. Consequently, when the economy turned down, the pain inflicted on many banks was even worse that it would otherwise have been.

Third, and significantly, there is the history of bank regulatory structure in the Lone Star state. I'm talking about the law that, until recently, kept banks from branching. Until that law was changed, Texas was one of a handful of states that prohibited branching of any kind. When banks are prohibited from branching you have, in effect, a policy of promoting numerous small institutions to meet the public's banking needs.

I have a few, a very few, statistics that show the effects of this policy in graphic terms for the most populous states in the country. In 1987, there were 1.07 banks for every 100,000 New Yorkers. There were 1.54 banks for every 100,000 Californians. There were 2.45 banks for every 100,000 Pennsylvanians. There were 3.45 banks for every 100,000 Floridians. And there were 10.52 banks for every 100,000 Texans. That's right: 10.52. That works out to about three times as many banks per capita in Texas as there were in Florida. And seven times as many as in New York.

For many, the stereotypical Texan wants to own a bank and an oil well. A Western Company commercial used to say: If you don't own an oil well — get one. And the old Texas branching law, in effect, sent much the same message about banks. But when you structure your law in a way that could conceivably make that desire a reality, you have to recognize that there is a downside risk.

First of all, you create an incentive for people to organize new banks when times are good. Without branching restrictions, established banks could have expanded more easily to handle expanded demand. But with the branching restrictions that Texas had, a number of new banks were established to take on that job. As a consequence, many of the institutions receiving our special supervision now in Texas are fairly new institutions.

Why? Historically, most new banks lose money for the first few years of their operation. In the last 5 years, between 50 and 60 percent of the banks less than 3 years old have lost money each year.

Many new banks in Texas began operations with high overhead costs — the money they have had to pay to attract deposits, for example — and their experience so far has been a race against time: Will their capital run out before their income allows them to cover overhead?

Second, though big isn't necessarily beautiful — and small isn't necessarily bad — bigger institutions are likely to have an advantage over smaller ones in attracting new capital, be it locally, regionally or nationally.

Why? Size attracts attention and analysis, which in turn increases the attraction of the institution to investors. Larger institutions are simply better known quantities. That advantage in attracting capital may be of great importance when a bank finds itself in an economy where all the primary industries have had the ground shift from under them, as happened here.

Furthermore, there is a fundamental problem when two or more institutions are operating in the same local market and offering similar products at similar prices. They all have overhead costs for duplicating essentially the same delivery systems. At the point where these costs exceed income, an institution ceases to be a business, which, after all, operates to make a profit. The situation many smaller banks in Texas find themselves in, therefore, is structural unprofitability. Their spreads are too narrow, their overhead too high, and too many of their assets are nonperforming.

There are many small national banks with bleeding wounds here in Texas. One of their chief problems is a shortage of equity capital and their chief need is to raise some more. What can they do? Use resources wisely. Explore every potential opportunity.

One door to community bank survival in Texas, I believe, is obvious, but you won't know until you check it out to see if it is open. Raise capital by merging together — or joining together by some other means — to form larger institutions.

A combination of some of these smaller institutions that today are unprofitable would bring about some efficiency — would avoid duplication of expensive facilities, data processing systems and other contributors to overhead — and would form fundamentally profitable institutions that could then attract capital.

The state law today is as flexible as any state law in America in allowing smaller banks to accomplish these combinations. And certainly on the federal level we would look with favor on banks with a merger plan that would result in greater capital flowing into the resulting institution.

You know, when you are giving advice, there is a danger that you'll be misunderstood unless you make yourself absolutely clear. To prevent any misunderstanding, I again stress: The important point in considering the merging of small institutions is to fix the fundamental problem — cut out duplication, run the operation like a business and raise new capital.

A merger of several small troubled institutions with capital deficiencies into a larger institution with a single large capital deficiency benefits no one. What's the point of combining several small sick banks into one large sick bank?

Capital has to be raised. Operational efficiencies have to be realized. Now of course the biggest practical hurdle to this type of solution where capital can be raised is that there can only be one chief executive officer at any merged institution. However, I believe that the question independent bankers who face the prospect of failure must ask themselves is: What is the point of being the head of a failed institution? I, for one, would far prefer being a part of a going concern than being in charge of nothing. And I believe that independent bankers must ask themselves that question before the failure of their institution becomes a foregone conclusion, in other words, while it still has resources that can be leveraged. I also want to stress that when you are a part of a going concern, you are earning a salary. And that's no small incentive, at least to most of us.

But first, you have to recognize the opportunity in your situation. Success often comes from finding the right

answer to an important question. The question many independent bankers in Texas should be asking themselves right now is, "How are we going to survive?"

I am from the federal government, and like the old joke says, we're here to help you. We at the OCC are here to help by providing information, both educational information like *The Director's Book* and research information like our study last year on the causes of bank failures. And we are here to help you in other ways.

In fact, we are undertaking a new initiative to provide help to troubled community banks, an initiative we've been experimenting with over the last year to help banks resolve problems before they become critical. Under this initiative, we act as an information clearing house for bank buyers and bank sellers. We inform troubled banks of the options available to them. We also bring interested parties, buyers and sellers, together. And we provide technical advice and our opinion on proposed transactions up front to facilitate quicker regulatory approval of applications, so that the trip through the maze will be shorter and more direct. We're looking for both buyers and sellers. It is no secret that the larger the sale, the more interest we have from buyers. We're not in the business, however, of arranging shotgun weddings. Yes, we are here to help.

But we can go only so far. Our initiative depends on banker initiative. What are *you* going to do about your problems? I believe if you use your imaginations, many of you will find the right answer. You will find the right answer if you remember that you're not in the business of making loans. You will find the right answer if you remember that you are in the business of making money.

Statement of Robert L. Clarke, Comptroller of the Currency, before the House Subcommittee on General Oversight and Investigations of the Committee on Banking, Finance and Urban Affairs, Washington, D.C., May 17, 1989

Mr. Chairman and members of the Subcommittee, I am pleased to have this opportunity to provide my views on the brokered deposit provision of H.R. 1278, as adopted by the Committee on Banking, Finance, and Urban Affairs. That provision would prohibit the acceptance of brokered deposits by federally insured financial institutions that do not meet minimum capital standards, unless those institutions received the approval of the FDIC.

As the primary regulator of the national banks, I share the Committee's concern about the use of brokered deposits by a large number of troubled thrift institutions—and a much smaller number of troubled commercial banks—to fund unsound activities that, in some instances, have increased the exposure of the federal deposit insurer. I do not believe, however, that the proposed prohibition on brokered deposits is the best way to address this problem.

Brokered deposits, as such, are not the root cause of the problem. On balance, those deposits have been used soundly and profitably by national banks and other depository institutions. The problems associated with brokered deposits stem largely from [illegible]

My statement this morning will discuss briefly the uses and potential misuses of brokered deposits by banks; I will outline why I believe the objective of the provision—limiting the risks that institutions will seek brokered deposits to fund unsafe and unsound activities—is best addressed by the vigorous application of the regulatory and supervisory tools now at the disposal of the primary supervisory agencies; and I will give some examples of how the OCC has applied its supervisory tools at banks that we found were misusing brokered deposits. I will then discuss why the brokered deposit provision of H.R. 1278 is likely to be ineffective in addressing the risks to the system posed by banks that use so-called "hot money" to fund speculative activities. An appendix to my testimony contains the data requested by the Subcommittee on the use of brokered funds by national banks.

Uses of Brokered Deposits

Brokered deposits are funds gathered by third parties and placed in insured depository institutions, usually in short-term certificates of deposit or other short-term deposit accounts. Brokered deposits are one form of so-called "hot money"—short term funds that a depositor or investor seeks to place in whichever depository institution provides the best terms.

Brokered deposits can play a legitimate role in [illegible] financial intermediation. In some areas of the [illegible]

try, more money is available for deposit than is demanded by local borrowers. In other areas, the opposite is true. Brokered deposits provide a mechanism for moving excess deposits to where they are needed, thereby increasing the efficiency of the banking system as a whole and benefiting both savers and borrowers. The ultimate beneficiaries are consumers, who receive an increased supply of credit at more competitive prices.

Brokered deposits are also a legitimate source of funds for institutions such as credit card banks, institutions which have been authorized by CEBA. By the nature of their operations, credit card banks lend over a wide geographical area and have no local deposit base. These funds are typically deposited in amounts well in excess of $100,000 and are therefore for the most part uninsured. The broker's role in these instances is to assist the depositor in finding the institution that offers the best combination of interest rate and safety. Brokered deposits of this type involve relatively little potential for abuse and correspondingly little risk to the deposit insurance system.

Other forms of brokered deposits can result in more risk. Brokered deposits enable any institution that is willing to pay a premium above market interest rates to obtain virtually unlimited funds from large depositors and institutional investors, regardless of the institution's condition. Ordinarily, the risk of loss would discourage such depositors from placing more than $100,000 in a weak or troubled institution, even if it offered a substantial premium above market interest rates. But by splitting large deposits into blocks of $100,000 or less and depositing each block in a different institution, brokers can effectively provide their clients with federal deposit insurance for the entire amount they wish to invest. Since the deposits are fully insured, even the most troubled institution can attract large amounts of brokered funds at a relatively small premium above market interest rates.

Because brokered deposits provide a means of attracting a large volume of insured deposits, they are subject to abuse, particularly by troubled institutions pursuing rapid growth in an attempt to escape insolvency. Such institutions, in their eagerness to attract deposits, may be tempted to accept a lower than normal spread between the interest rate on deposits and the earnings on the assets funded by those deposits. Alternatively, to compensate for the higher cost of brokered deposits, they may be willing to take on excessively risky assets. Or they may tolerate a maturity mismatch between short term deposits and long-term assets, which will cause spreads to erode if market interest rates rise. The effect can be to compound the institutions' losses and increase the exposure of the federal deposit insurer.

Although a large number of failed thrift institutions, and a much smaller number of failed banks, have been found to be holding some amount of brokered deposits when they failed, the use of brokered deposits is not the fundamental problem. As long as an institution adheres to sound principles of asset liability management, it can use brokered deposits safely and profitably. And if capital standards exist and are enforced, there is a built-in restriction on the amount of deposits—including brokered deposits—that can be accepted. Furthermore, even if an institution is undercapitalized, there is no reason to object to its use of brokered deposits as long as it invests the funds in sound assets, pays an interest rate that is not so high as to erode spreads, and maintains a reasonable match between the maturities of the brokered deposits and the maturities of the assets that they fund.

Where abuse does occur, it is symptom of underlying management weaknesses. The widespread abuse of brokered deposits in the thrift industry occurred both because thrifts were not required to back their growth with adequate levels of "hard" capital and because many thrifts remained open despite being economically insolvent. With their capital depleted, shareholders no longer had a stake in the venture, and thse institutions had everything to gain and nothing to lose from pursuing a strategy of rapid asset growth. The factors that would normally have served to restrain such growth—vigorous enforcement of capital adequacy standards and closure of insolvent institutions—were largely absent.

Abuse of brokered deposits in the banking industry has been much less widespread. Banks have been subjected to much stronger capital requirements and closure policies, and they avoided much of the erosion of capital that gave rise to problems in the thrift industry. As of yearend 1988, only 14 national banks that did not meet OCC minimum capital requirements held brokered deposits in excess of 5 percent of total deposits.

Controlling the Risks

The best safeguards against the imprudent use of brokered deposits by federally insured depository institutions are strong capital standards, a policy of closing banks when the economic value of their capital is depleted, a solvent deposit insurance fund, and vigorous supervision. To be effective, steps to rectify the misuse of brokered deposits must be directed at the underlying weaknesses in the bank's management

them—whether it is ill-conceived growth objectives, [illegible] spreads, or inattention to maturity matching—[illegible] these weaknesses surface. This can best be accomplished as part of the ongoing process of supervision by the bank's primary regulator.

OCC Use of Controls. Let me describe how that works at the OCC. All banks report their use of brokered deposits to the OCC each quarter in their call reports. Whenever a national bank's brokered deposits exceed 5 percent of its total deposits, that fact is brought to the attention of the examiner responsible for supervising that bank. This information leads to a closer look at the role brokered deposits play in the bank's overall funding plan. If appropriate, the supervisory strategy for that bank is adjusted to address the bank's use of brokered deposits.

The Congress has given bank regulators an adequate arsenal of supervisory and enforcement tools to deal with abuses of brokered deposits, and the OCC has not hesitated to use those tools. Abuses that are detected by our examiners, either through analysis of quarterly call reports or in the course of periodic examinations, trigger a supervisory response. The OCC has issued cease-and-desist orders to compel a bank to reduce its reliance on brokered funds, to prohibit a bank from soliciting or accepting additional brokered deposits (and, on rare occasions, required banks to shed their brokered deposits), or to require a bank to notify us when brokered deposits exceed a defined percentage of total deposits. Violations of cease-and-desist orders subject the offending institutions and individuals to civil money penalties and to judicial enforcement, which provide additional incentives to comply. If the situation warranted, the OCC would initiate a removal action against the individuals involved.

Some specific examples will further illustrate the use of enforcement powers. Six national banks with composite 5 CAMEL ratings (the worst rating on the regulators' scale) currently have brokered deposits in excess of 5 percent of their total assets—a level that we consider to be a potential supervisory concern. One of the six banks is a subsidiary of a large bank holding company whose condition is being monitored on a [illegible] basis by both the OCC and the FDIC. The other five banks are all under enforcement actions that specifically reference brokered deposits. In two of these [illegible], we prohibited further deposit gathering through brokers. In the other three cases, the board of directors of each bank has committed to monitor the [illegible] of brokered deposits and to establish proper [illegible] procedures for the use of brokered deposits. [illegible] growth through brokered deposits [illegible] provided by our capital stand-[illegible] we have imposed.

Controls on Thrifts. H.R. 1278 addresses the need to deal with an obvious emergency in the savings and loan industry and to prevent a recurrence. Consistent with an essential element of the Administration's proposal, H.R. 1278 requires that thrifts meet capital standards that are equivalent to those that banks must meet, and couples those standards with the requirement of vigorous supervision by the primary regulator of thrifts. Thrifts that fail to meet those standards would be subject to particular scrutiny, including restrictions on asset growth. Although it is understandable that Congress is concerned about the misuses of brokered deposits by thrifts, a policy of restricting the use of brokered deposits by undercapitalized institutions would add little. Because relatively few OCC-supervised banks have abused brokered deposits, little would be gained by applying those restrictions on brokered deposits to national banks.

Restrictions would be ineffective. A policy of restricting the acceptance of brokered deposits, by itself, is likely to be ineffective, because any institution that is intent on using hot money to fund growth, and is not prevented from doing so by its supervisor, will simply find other vehicles for doing so. Third party brokers have facilitated the placement of deposits, but they are not essential. With the removal of government-imposed ceilings on interest rates and the spread of modern information technology, depository institutions can and do achieve much the same result by other means; for example, by soliciting large deposits directly from pension funds and other large institutional investors that perform an implicit brokerage function for their members, or by setting up a captive money desk that contacts depositors directly. Similarly, some depositors now place their funds without the assistance of a broker. All that is needed is a publication listing the depository institutions offering the highest interest rates on certificates of deposit and a telephone. Any depository institution can run a newspaper advertisement soliciting fully insured deposits at above-market rates and generally obtain as many deposits from the public as it desires.

To the extent that a prohibition on brokered deposits at undercapitalized institutions is effective, it may strike the wrong targets. Irresponsible use of volatile funding sources can occur at any level of capitalization. Indeed, an analysis of bank failures conducted last year by the OCC revealed that many national banks that got into trouble by pursuing excessive growth did so while their capital ratios were still on a par with peer-group banks. By the time an institution has deteriorated to an unsatisfactory condition, brokered deposits or other forms of hot money are likely to be the only source of funds that it can attract to stem deposit outflows. At that point, brokered deposits represent one of the few ways

that the institution can remain liquid until it can be closed in an orderly fashion. A disorderly closing can be disruptive to the community served by the bank, and it can destroy any remaining franchise value of the failing institution, thereby increasing the ultimate cost to the deposit insurer. Thus, a broad prohibition risks pushing some institutions into otherwise avoidable liquidity insolvencies.

The differing roles of the insurer and supervisor. I do not believe that the prohibitions on brokered deposits contemplated by H.R. 1278 are necessary, nor do I believe they would be effective. Apart from those objections, however, I do not favor the provision because, in its present form, H.R. 1278 authorizes the deposit insurer, rather than the primary supervisor, to waive the prohibition on accepting brokered deposits. H.R. 1278 puts the deposit insurer in the position of reviewing—and endorsing or vetoing—a troubled financial institution's funding strategy. In my view, the review of an institution's funding policy can be properly conducted only within the context of a bank's overall strategic plan. The primary supervisory agency already has the responsibility to conduct that review, as part of its ongoing supervisory efforts.

The decision whether to allow an undercapitalized bank to accept brokered deposits turns on the institution's circumstances. The decision must be based on informed judgments as to the adequacy of the institution's management controls, the use it makes of brokered deposits, the price it is willing to pay for them, the institution's requirements for liquidity, and the availability of other sources of funding. Those judgments require a detailed knowledge of the institution's condition that is uniquely available to its primary supervisory agency—in the case of national banks, the OCC.

There are other potential problems with empowering the FDIC to determine whether a troubled national bank can accept brokered deposits. It may lead to confusion and delay for troubled national banks as they try to respond to directions from both the FDIC and the OCC. Responding to duplicative requests would waste both the bank's and the regulators' resources at a time when supervisory resources are already being strained and need to be deployed in the most efficient manner possible. Duplicate reviews could also hamper the ability of a bank to respond immediately to crises, including funding difficulties. Currently, we are able to provide timely guidance to banks as they deal with such problems; in urgent situations, we can respond in a matter of hours. Further, this provision may result in uncertainty about what capital standards apply, because the language of the bill could be interpreted to establish a separate capital standard for banks that accept brokered deposits.

Conclusion

The problems of some depository institutions have undoubtedly been exacerbated by the use of brokered deposits. Nonetheless, the proposed prohibition is not the best way to address those problems. Restrictions on brokered deposits are easily circumvented, they focus on only one aspect of a bank's operations, and they fail to deal with the root causes of the problem.

Brokered deposits, along with other aspects of the bank's funding and lending activities, must be evaluated within the context of the bank's overall operations. That involves, among other factors, analyzing the strengths of the bank's management, its policies regarding funding and lending activities, the quality of its assets, the adequacy of its capitalization, and its responsiveness to supervisory actions.

The best safeguards against ill-conceived growth or the unsound use of funds by federally insured depository institutions are strong capital standards, vigilant supervision, particularly when institutions fall below those capital standards, and prompt closure when their capital is depleted. These safeguards are critical whether the bank gathers its funds entirely in its local market or through a deposit broker. I am confident that the OCC has in place an approach that enables us to provide the necessary supervision of troubled national banks. We recently strengthened our regulation of capital adequacy by making banks increase capital when the riskiness of their assets increases, and by requiring a minimum amount of "hard" equity capital. We are proposing for comment a rule that would redefine insolvency (and thus the point at which a national bank could be closed) as the point at which a national bank no longer has equity capital.

The Administration's legislative proposal to deal with the problems of the thrift industry has, at its core, a set of provisions designed to strengthen the supervision of thrift institutions. Supervision—not arbitrary restrictions on the operational decisions of insured institutions—is the way to protect the safety and soundness of insured depository institutions.

Appendix

Brokered Deposits at National Banks

As of December 31, 1988, 309 national banks, or approximately 7 percent of all national banks, reported holding any brokered deposits. Brokered deposits at national banks totalled $31.5 billion, which represents less than 5 percent of the total deposits of those 309 banks, and roughly 2 percent of the total deposits of all national banks. Six percent of all brokered deposits

[illegible] national banks that did not meet current capital adequacy standards. (To meet current capital adequacy standards, a bank must maintain primary capital equal to at least 5.5 percent of total assets, and maintain total capital equal to at least 6 percent of total assets.)

National banks holding brokered deposits

	Number of Banks	*Volume of Brokered Deposits*
Meet capital standards	253	$29,619M
Do not meet capital standards	56	1,913M
All banks	309	31,523M

National banks with brokered deposits were distributed throughout the country, but the preponderance of undercapitalized banks with brokered deposits were located in our Southwestern District (Texas, Oklahoma, Arkansas, Louisiana, and New Mexico).

Undercapitalized national banks holding brokered deposits

District	*Banks with Brokered Deposits*	*Percent of Banks with Brokered Deposits*	*Under-capitalized Banks with Brokered Deposits*	*Under capitalized Banks With Brokered Deposits > 5% of Total Deposits*
Northeast	84	17%	4	1
Southeast	44	8%	2	1
Central	24	3%	1	0
Midwest	23	3%	1	0
Southwest	91	8%	47	11
West	43	7%	1	1
All NBs	309	7%	56	14

Undercapitalized is defined as failing to meet the current minimum capital-to-assets ratio, which requires 5.5 percent primary capital and 6 percent total capital.

Remarks by Robert L. Clarke, Comptroller of the Currency, before the Annual Convention of the Florida Bankers Association, Marco Island, Florida, May 19, 1989

I want to begin today by stressing that I have a big subject to talk about, but I don't have a long speech.

When I was a college student at Rice University, I learned an important lesson on the value of brevity. My college class had a mandatory chapel. All the students had to attend an hour-long meeting once a week. The chief purpose of this meeting was to give the University administration a means to ensure that all the class members would hear important announcements. That generally took up about 5 minutes a week.

The University administration throught it would be a poor policy to call the students together for just 5 minutes, so to help fill up the rest of the time we had educational activities: readings, presentations, and outside speakers. One morning, a visiting motivational lecturer spoke on the four letters R, I, C, and E. He held forth for ten minutes on "R" for Respect, but the audience was unimpressed. Then he carried on for another ten minutes on "I" for Intelligence, by which time he lost the entire crowd. He went on for another ten on "C" for Character, then ended with ten on "E" for Energy.

At that point, my roommate, who was standing next to me, knelt and began to pray, a phenomenon I have never seen him perform before or since. All the other [illegible] stayed [illegible] over my [illegible]. The lecturer saw what was going on, left the stage and walked to where we were. "Young man," he asked, "perhaps you would be good enough to tell me what it was that moved you so deeply?" And my roommate responded, "Yes, of course. I was just offering a small thanks that I go to Rice and not Texas Agricultural and Mechanical."

Brevity is a virtue. So, too, is devotion to purpose.

Yes, devotion to purpose — focus — a drive toward success — is a virtue. It's a virtue, that is, with one exception: If the devotion is blinding, if the focus is narrow, if the drive is single-minded, you may not notice what's going on around you. So devotion to purpose must be balanced by perspective and vision.

Let me put it this way. Say you want to go from Miami to New York City. Getting to New York is your goal, but you have to know how to get there — what the routes are and what means of transportation are available. If you are obsessed with your goal, you'll just find the nearest road north and start walking. But no one in his right mind would do that. You would plan the trip. And you would weigh the costs against the benefits of the available alternatives.

Furthermore, you would take into consideration the fact that, over time, the ways and the means change. Just because the horse was the chief means of transporta-

tion between the two points for most of our nation's history doesn't mean you would ride a horse. If it's business and time is important to you, you would take a plane — a very fast, jet airplane. If it's a family vacation, you might take an RV.

My point is a simple one: Purpose is necessary for success. You'll never get to New York unless you want to go. But taking external factors, and especially technological change, into consideration is just as necessary.

Now before you think this is the standard "technological change" speech you've heard so often before — change is the only constant, and so on, and so on — let me assure you that it is not. I'm not here to talk about the "big picture." I am here to remind you that it costs money to get your pictures developed. I am here to prompt you to ask yourselves: When it comes to the research and development, and the new product development, that is necessary to keep the banking industry and individual institutions strong and competitive, where is the money going to come from?

Over the last several weeks, at the OCC we have spent a considerable amount of time talking with lawmakers in Congress and their staffs about bank and savings and loan capital and the uses of capital. As you know, the Bush Administration has proposed that thrifts be held to capital standards no less stringent than those the OCC applies to national banks. From the supervisory standpoint, that standard is the keystone of the Administration's proposals: these capital standards will go a long way in ensuring that the current S&L disaster will never again happen.

We explained that we expect national banks to have enough capital to provide a cushion for absorbing losses or for other problems. We noted that capital provides security for uninsured depositors and we talked about how capital protects the deposit insurance system. We walked them through how higher capital serves to increase the financial stake that stockholders have in the safe and sound operation of a bank. All in all, we spent a lot of time discussing how we view capital and how we use it as an important tool in holding banking risks to tolerable levels.

But, in addition to the short-term uses of capital that bank supervisors find essential, there are long-term uses — to finance expansion and internal needs, needs that include research and product development. Research covers everything from funds transfer systems and systems application to marketing surveys. New product development covers everything from the latest generation of interest rate swaps to smart cards. And research and product development overlap because in banking the system and the product are often so intertwined that it is impossible to separate them.

In the long term, these uses of capital for research and product development may be just as essential in ensuring the survival and prosperity of any institution as the uses of capital the bank supervisors focus on. There is no doubt about it, research and product development are expensive endeavors. But, in the long run, the alternative is likely to be more expensive. There is an old saying: "It takes money to make money." That certainly appears to be the case here. Deep pockets are necessary to finance research and product development.

Research and product development are crucial to innovation and are likely to become even more so. Innovation benefits the consumer, and innovation is a critical factor in becoming competitive and staying competitive.

Now this wasn't always the case in banking. When Ike and JFK were President and the franchise was inviolate, some banks spent money on computers, and some on computer research, but the investment of the industry as a whole in research of any kind was pretty small. No one developed new products in any significant way because the government wouldn't let you offer anything that was significantly different from what you were already offering. This was okay because other government restrictions practically guaranteed banks a profit. Not a competitive profit. A monopolistic profit. But a profit, nevertheless.

How much more sophisticated are the computer systems banks have grown into and outgrown since then? And how many new products have banks developed in just the last decade or so, as we've deregulated product offerings and the prices institutions may charge for them? Thanks to two prominent analysts, Andre A. Cappon and Walter A. Diaz, a few come to mind: Cash Management Accounts, money market accounts, automated teller machines, debit cards, adjustable-rate mortgages, home-equity secured lines of credit, discount brokerage, mutual funds, IRAs and Keoghs, interest rate swaps, financial futures and options, floating rate notes, financial guarantees, zero-coupon bonds, collateralized mortgage obligations, and index funds.

These are not just additional products added to the traditional banking product mix. In many cases these new products have replaced traditional banking products as major product lines at institutions. And as Cappon and Diaz have pointed out, "The importance of

[illegible] in the financial services industry is [illegible] evident that each significant [illegible] must pay active attention to [illegible] process of developing and introducing new products [illegible] to maintain its competitive position and [illegible] relationships.

Of course, there is much more to be done in expanding the legal structure for banking so that the business of banking, too, can change and expand. But the important point is that we have made the decision to allow the market to determine what banking would be and what bankers would offer. If banking, no longer offering monopolistic products and services, is not allowed to change and expand to meet the needs of the market, banking won't be in the market for long. Banks, having been allowed entry into a freer market, having been given the legal authority to offer at least some of what bankers want to offer, must respond on their own to market demands.

As you all know, change is built into the market mechanism. The product life cycle ensures that new products will be produced to meet customer demands, just as old products will wither as customer demand drops. But all these considerations underscore my point. Think about all the information on change, technological and demographic, that you have heard about in speeches, read about in books and articles, and learned about from consultants and experts over the last 10 years or so.

Now think about this: who is going to pay for you to keep up? The answer: you will. The alternative: you won't.

Capital is a cushion to absorb losses, it is security for depositors, it is protection for the insurance fund, it is the stake that shareholders have in the prudential operation of a bank, and it is an important tool in bank supervision. It is all of those things. But, it also is an institution's stake that will finance the changes it must make in the future. Now, I'm of the persuasion that bankers should manage their institutions just as they would if there were no bank supervisors. Critics of the industry [illegible] and a few comedians in it [illegible] say that some bankers already do that, but in a sense far different from what I mean.

[illegible] that banks should have capital ample to [illegible] meet the other purposes [illegible] having to prescribe [illegible] not because regulators [illegible] The [illegible]

Even so, the supervisors don't see capital for prudential uses to be the wand, the amulet, the divining rod, the potion, the idol, in short, the magical answer that will ensure that every institution will be safe and sound. Rather, we consider capital to a depository institution to be like a vitamin to a person. A deficiency means trouble and too much is likely to be harmful, but the right amount, an amount sufficient to meet needs, will help ensure health and increase strength. The right amount varies from institution to institution, just as the need for vitamins varies from person to person. But, just as with the need for vitamins, we can estimate a minimum requirement for capital and we can, from experience, tell when more than the minimum is needed for prudential uses.

That being said, I must stress that neither I nor any other bank supervisor can say what the proper level of capital should be for financing research and product development at any particular institution. Only a bank's senior management can do that. And a bank's senior management can do that only if it has its competitive situation and its strategy firmly in mind. After all, isn't that what a bank's senior management is paid to do?

To make money is a bank's purpose. To achieve that goal, a bank must be competitive, both in the sense of battling with rivals and offering its markets the products its customers demand. A bank's strategy is the route, the way, it will achieve its purpose. And its resources are the means through which it will achieve that purpose.

Devotion to purpose is necessary to achieving that goal. But devotion alone isn't sufficient to achieving it. There must be ways and there must be means and senior management is responsible for seeing that both are created.

Citicorp has the reputation of being an innovator. The holding company even has its own R&D subsidiary. From systems design to electronic consumer banking stations, Citicorp has been on the leading edge. Some of the time, though, that leading edge has been a bleeding edge.

John Reed's efforts in consumer banking in New York City cost millions and millions of dollars, as the company invested in a massive network of ATMs, before the consumer banking program as a whole returned a profit. But it's now making money. Lots of money.

Indeed, consumer financial services contribute more than a third of the banking company's profits [illegible] a considerable achievement when you consider that [illegible] transformed itself from the country's largest

commercial bank to its largest consumer bank in the last decade.

Citicorp has also experienced bleeding edge projects that never turned a profit. For example, as pointed out in the book titled *Citibank 1812-1970* by Harold van B. Cleveland and Thomas F. Huertas, beginning in 1951 Citibank "invested heavily in a partnership with IT&T in developing a mechanical sorting machine to process checks and prepare customers' statements. While the machine was still in the development state, the banking industry adopted a common check encoding system known as Magnetic Ink Character Recognition as an aid to banks in automating check processing. The new system made the IT&T machine obsolete before it was fully operational. The machine, too large to dispose of in any other way, was loaded on a barge and sunk in the Atlantic Ocean. Down with it went several million dollars of the bank's money."

Now I'm not holding Citibank Citicorp up as a cookie cutter model that all banking organizations should follow. I just want to point out that Citicorp has been aggressive in preparing for the future. It has invested heavily in shaping its future. In doing so, it has influence over where it wants to go and how it will get there — influence over its own destiny. But if it hadn't the resources to invest, it never would have a significant measure of control over its fate. Very few banks face Citicorp's competitive situation. But all banks have a competitive situation to face.

A strong capital base provides banks with flexibility, the freedom to explore innovation. A strong capital base allows banks to take a longer-term view of the world, to make long-term plans, to invest in the long-term improvements that will allow them to remain competitive nationally and internationally, without the need to scramble quarter to quarter just to survive. A strong capital base can fund growth and expansion. A strong capital base allows banks to make acquisitions. And opportunities for acquisition come to those who are prepared for them. A strong capital base allows a bank to face the future with confidence.

In short, a strong capital base allows an institution to experiment, to create and to control. Capital isn't just a supervisory concern. Capital is a managerial concern.

Remarks by Robert L. Clarke, Comptroller of the Currency, before the Annual Convention of the Maryland Bankers Association, Toronto, Canada, May 22, 1989

It never ceases to amaze me how anticipating an event — and imagining what it will be like — can lead a person to expectations that end up being wrong. I am even more amazed when that person turns out to be me. And I am most amazed when the catalyst for my personal epiphanies is my son, Logan.

Years ago, when Logan was about 8 years old, my wife and I decided that the time had come to take him East on vacation, so that we could give him the experience of being where much of early American history occurred.

Before the trip, I talked to him about patriotism and the American Revolution and the Civil War and the people who forged our nation. I talked to him about the ideas — and the ideals — these people lived by. Finally the day came when we flew East and landed in Washington.

The next morning we immediately went to the Mall to start the day with a visit to the Lincoln Memorial. On the walk over, I again gave Logan a thumbnail biography of perhaps our greatest President: his humble beginnings, his national vision, his sacrifice. We gazed for a few minutes at the 19-foot statue in silence. Then Logan turned to me with a look of amazement on his face and said: "Gee, Dad, why didn't you tell me he was so big?"

Well, New York City was the next stop on the trip. On the flight up, I talked to Logan about how the French people gave us the Statue of Liberty to commemorate the centennial of our republic and to celebrate the democratic ideals that both nations had in common.

The next morning we boarded the ferry that would take us to Liberty Island. As we neared, I anticipated a chance to be dramatic for my son by reciting "Give me your tired, your poor . . ." So I asked Logan if he knew what was written on the base of the statue. And he deflated me with his reply: "Made in France."

Finally we went to Boston, and I said to myself: "Here is where we will make an impression. What little boy would fail to be thrilled by a description of Paul Revere's midnight ride?" After Logan went to sleep, I took out the famous poem and memorized it, all the time visualizing how my son would hang on every word.

[illegible] building, which led to the North Church and [illegible] that at this very spot Paul Revere began his famous ride. And before I could clear my throat Logan said, Paul Revere — I remember him. When the enemy came, he rode off in the other direction.

Much of the time, the future turns out to be something different from what you expected.

Several weeks ago I accompanied OCC examiners for the first time to an examination of a national bank for compliance with federal laws and regulations. The bank happened to be in Maryland.

Over the years I had heard horror stories from friends in banking about the ordeal the OCC put bankers through during these examinations. I imagined and anticipated and, therefore, expected such an ordeal, but I wanted to see for myself. Often what you see is in the eye of the beholder. But what I saw was examiner thoroughness and professionalism and banker cooperation. Sure, there was some feeling on both sides of, this is what the law requires, and we have to meet the letter of the law.

But the efforts of the bankers in this particular bank went beyond acquiescing with the letter of the law to trying to understand the spirit behind it and to act on that understanding. These bankers wanted to be good citizens. Which is what the spirit of the law is all about.

Bankers have traditionally been professional good citizens in our country. The story of this tradition is well told in Paul B. Trescott's book, *Financing American Enterprise*.

When the challenge facing the nation was building railroads west, banks helped finance the effort. In the half century following 1865, the railroads absorbed nearly $10 billion of capital funds. According to one estimate, commercial banks provided about $1 billion of this sum directly by purchasing railroad bonds. Banks also made short-term loans to the railroad companies. And indirectly, much more bank credit passed into railroads through bank loans to brokers or individual investors on collateral of railroad stocks and bonds.

When the challenge facing the country was building a modern industrial base, banks helped finance enterprise. Between 1900 and 1929, American business needed about $100 billion to finance the expansion of [illegible] capital goods, buildings, equipment and [illegible]. Through loans and acquisitions of stocks, bonds, and mortgages, commercial banks supplied [illegible] of what was needed. Through loans [illegible] they added an[illegible] [illegible] these figures,

banks contributed more than a fourth of business financing during those 3 decades.

When the challenge facing the nation was rebuilding and expanding the national infrastructure — schools, roads, and other public facilities — after 15 years of depression and war, the banks helped finance the construction. To finance their capital expenditures between 1945 and 1960, state and local governments increased their debts by $44 billion, chiefly through bond issues. Commercial banks supplied $14 billion of the $44 billion directly, and $4 billion more through trust-fund investments. The banks also played a major role in marketing bond issues to other investors.

Now, the bankers of the past didn't make these loans and investments out of charity. They expected to be repaid — and repaid with a profit. But the point I want to stress is that they invested in their communities — national and local. These investments resulted in profits. And they also resulted in returns that didn't appear on the institutions' balance sheets — stronger, more productive local and national economies and strong identification and relationships between communities and the institutions that served them.

Bankers traditionally have been leaders in community development because money is the fuel that powers the engine of growth and the traditional business of banking is money. Attracting it and using it.

There are many reasons why bankers today should still be leaders in community development. It makes good business sense. As the community prospers, so, too, do its banks. Call that the profit motive.

Of all the forms of business, banking is one of the ones most tied in people's minds to a particular place. That's why many banks place the names of their locations in their names — Bay National Bank, First National Bank of Maryland, Maryland National Bank, and others. Call that the relationship motive.

As good corporate citizens in their communities, banks can build customer loyalty. When so much competition for banks comes from nationwide, giant financial conglomerates, this type of loyalty becomes more and more important. Call that the competitive motive.

Profit ... relationship ... competition ... three strong reasons, three strong motives, for banks to enter community development and to stick with it.

Now there is a law on the books — the Community Reinvestment Act — that encourages banks to help meet the credit needs of low- and moderate-income persons in their market areas. I emphasize the word

help. What that means is that banks need to do at least two things. Find out what the credit needs are, and develop a program to help meet those needs.

Bankers need to do these things. Bank directors need to know that bankers are doing them. And — just incidentally — a program helps prove the case with OCC examiners. Make no mistake about it. The OCC is serious about bank compliance with this law. As evidence of our serious intent, we joined with the Federal Reserve Board and the FDIC several weeks ago in issuing an expanded policy statement on CRA compliance. The statement discussed what we expect banks to do. And the statement gave banks guidance on how to do it.

I've often said that bank managements should manage as if the bank supervisors did not exist. Bank managements should maintain strong capital standards, not because a regulator requires them, but because it is good business to do so. Bank managements should establish strong credit underwriting and risk analysis policies and follow them, not because a regulator requires policies, but because it is good business to do so. Bank managements should establish management information and control systems and use them, not because a regulator requires systems, but because it is good business to do so.

In just the same way, bank managements should work to help assure that the credit needs of their communities are met, not because some law or supervisor requires them to, but because it is good business to do so. And lots of bank managements do.

Indeed, one problem I've seen is that many banks that make fine efforts to meet community credit needs often fail to take credit, and often fail to get credit, for doing so.

On the other hand, lots of bank managements don't do what they could. And they need to do more. They need to do so because the law and the bank supervisors require it. But more important, they need to do so because the type of lending that the CRA calls for can contribute to the growth of business, generate employment opportunities, and support residential and commercial development and property improvement.

Let me give you a real life illustration of what I mean. In Chicago, local banks and other corporations support the Chicago Neighborhood Housing Service program, which works in eight city neighborhoods. The NHS is one of hundreds of similar nonprofit organizations — all assisted by the Neighborhood Reinvestment Corporation and local financial institutions — that focus on revitalization of neighborhoods throughout the country.

In just one Chicago neighborhood, West Humboldt, direct NHS activities have resulted in bank and other financing for housing rehabilitation loans, home mortgages and apartment improvement loans that together total almost $6 million. More than 1,400 housing units in West Humboldt have been directly assisted by the NHS since 1980.

And right here in Maryland several banks joined to form the Maryland Development Credit Fund, which provides working capital and expansion financing for minority businesses. By pooling resources, sharing risks, and utilizing loan guarantees from the state of Maryland and the Small Business Administration, the Fund helps the banks meet important community credit needs through a partnership approach. These types of activities help generate deposit growth and loan demand. And all that sounds like community development to me. The CRA requires what a bank as a good corporate citizen would make the effort to do anyway.

In addition to lending, banks in recent years have been asked more and more to help fill gaps in the financial and technical resources necessary to meet specific community credit needs or to support local development and revitalization projects.

Banking's primary strengths in assessing local markets and business opportunities — and in evaluating loan and investment proposals — have become increasingly important to the community development finance process. At the OCC, we want to do what we can to encourage national banks to recognize the long-term benefits of community development and to become motivated to enter and stay in the process. Not because we will punish them if they don't. Not because it will win them a regulatory pat on the back. But because it is the right thing to do. Community growth and renewal is, we believe, necessary for a bank's long-term success.

We are pleased that we have been able to facilitate community development through the national bank Community Development Corporation program. Bank CDCs and community development equity investments have become effective vehicles for a concerted effort to target a low- and moderate-income neighborhood or distressed community for revitalization. These public private partnership efforts have included technical assistance, promotional leadership and financing from the CDC and from the participating bank or banks. We think that the strength of the program has been that it is extremely adaptable to the diverse needs of banks and the needs of their communities.

In Ohio, the Norwalk CDC was initiated in [illegible] by National City Bank of Norwalk, a community bank

[illegible] new growth in the local economy and [illegible] employment, the bank's management, working with the local chamber of commerce, developed a strategy to promote economic revitalization. The CDC built a 20,000-square-foot shell building in a [illegible] industrial park and joined with state and local economic development agencies and utilities to market the site to a manufacturing company.

Ultimately, a local company which had previously considered relocation to another community purchased the building, creating 150 new jobs while retaining its existing employees. The CDC was then approached to develop another industrial building to accommodate expansion of another local company, which had announced its intention to leave Norwalk. The CDC and the bank worked with city officials and the owner of the industrial park to develop a financing package to build and lease a 65,000-square-foot building for the local company. The bank estimates that these two projects created and saved more then 325 jobs in Norwalk and more then $7 million in salaries.

Revitalization and development take many other forms. NCNB CDC was founded 11 years ago and was the first wholly owned CDC subsidiary authorized by the OCC. It has sponsored housing and commercial developments in four North Carolina inner cities. The CDC has participated in more than a dozen projects that include neighborhood housing rehabilitation, construction of new homes to support neighborhood revitalization, and development or rehabilitation of retail space.

For example, in Charlotte, the CDC participated in a joint venture to develop a 300,000-square-foot, mixed-use complex with office, retail, and residential units as part of a city-supported redevelopment program. It is the second largest redevelopment in Charlotte's history.

NCNB CDC is also assisting in the formation of the Charlotte Housing Partnership, which will help produce low- and moderate-income housing. In the past 2 years, NCNB CDC has worked in partnership with the local governments of Charlotte and Raleigh to develop [illegible] single family homes for low-income residents, many of whom were former public housing residents.

Farther south, the Miami Business Assistance Consortium is a multi-bank CDC organized to provide financial and technical assistance to black businesses. The CDC leveraged funds from the banking and corporate community to make loans and equity investments [illegible] than $[illegible] million in its first 4 years, creating [illegible] the Miami BAC [illegible] and in the [illegible] public and private investments in those businesses. The CDC also manages The Entrepreneurial Institute — a 12-week course in how to run a business — and it operates a small business "incubator" where 25 small companies share technical support services and facilities.

Under our CDC program, the OCC also can approve direct equity investments in community development projects. Over the last few years, a number of national banks, including one here in Maryland, have been authorized to invest as limited partners in lower-income housing projects that qualify their investors for federal low-income housing tax credits.

We at the OCC want to help explore what is necessary for progress. We want to be strong advocates for our CDC program. It is not a big federal program. Big federal programs don't have the reputation for being successful. CDCs do. We want to strengthen the CDC program to provide increased flexibility to national banks to participate in community development in the 1990s.

Bankers often ask us if CDCs are the answer to meeting their CRA responsibilities. CDCs are a significant tool for banks to use in assessing and meeting community credit needs, but they are not the only tool available. We do not believe that CDCs should be seen as primarily a response to the CRA. If that law did not exist, the need for CDCs would still be as great: community development.

It is not true that establishing a CDC will automatically generate the highest rating for a bank's CRA performance. The other key components of a CRA assessment — from active outreach to Fair Lending compliance — are also important. But it is safe to say that CDCs and community development investments often substantially contribute to meeting the community development requirements of the CRA.

In short, our CDC program can help banks do good by doing business. I urge those national bankers who have not looked into CDCs to do so. And I urge bankers from state-chartered institutions to consider similar programs. At bottom, if banks want to be good corporate citizens, they will have to contribute to their communities a portion of their most important assets — their employees' time and talents — to find creative solutions to problems.

I first learned what a creative solution to a problem was when I was a college student spending the summer as a construction worker. On my first day at work, the entire crew was new. The foreman had to prove just how tough he was. The foreman lined us all up and said, "The first thing I want you to know is that I can lick

any man in my gang." A fellow who was about a head taller and a hundred pounds heavier than the foreman stepped forward and said: "You can't lick me!" The foreman looked him over carefully, nodded agreement, and said: "You're right. You're fired."

It is up to every banker to define what good business is. But any creative definition should include good citizenship.

Statement of John H. McDowell, Director, Consumer Activities Division, before the House Subcommittee on Policy Research and Insurance of the Committee on Banking, Finance and Urban Affairs, Washington, D.C., May 31, 1989

Mr. Chairman and members of the Subcommittee, I am pleased to have this opportunity to provide the information you requested as part of the Subcommittee's hearings in preparation for the reauthorization of the flood insurance program. My name is John McDowell. I am the Director of the Consumer Activities Division in the Office of the Comptroller of the Currency (OCC). My division has primary responsibility for the administration of the compliance examination procedures related to flood insurance as well as other consumer protection laws affecting national banks.

My statement this morning will be in two parts. First, I will review the compliance examination procedures used by the OCC to evaluate the compliance of national banks with the laws and regulations that require purchase of flood insurance when a bank participates in a mortgage for a structure located in a flood plain. Second, I will offer a few suggestions for improving compliance.

I think it is important to note at this point that for all the loans made in metropolitan statistical areas for 1987, as reported through the Home Mortgage Disclosure Act, national banks made just a little over 20 percent of the loans. In comparison, savings and loan associations made more than 50 percent of the loans. It is unclear at this time how many mortgages are made by lenders that are not subject to the Flood Disaster Protection Act (FDPA) but with the concern expressed over the lack of flood insurance coverage, it seems reasonable to require all mortgage lenders to comply with the FDPA.

We have made a serious effort to ensure national bank compliance with the FDPA by developing the Compliance Program. Each year we select a random sample of nationally chartered community banks for compliance examinations while our multinational and regional banks are examined every other year. In 1988, we performed compliance examinations at 701 national banks. These 701 banks, 16 percent of the 4,319 national banks, represent approximately 70 percent of all assets held by national banks.

In our compliance examinations we focus our reviews on the bank's system by evaluating whether bank management and the board of directors take an active role in supervising compliance. We then make sure the bank has the necessary policies and procedures in place to ensure compliance. If the examiner determines that there are special flood hazard areas in the bank's trade area and there are communities participating in the flood insurance program, the next step is to review the method the bank uses to determine if the property is in a flood hazard area. If the bank is using the flood maps to make that determination, the examiner verifies that the bank has a flood map for each community. The flood hazard maps are not always in sufficient detail to make a good determination. If better maps were available for appraisers as well as lenders, increased flood insurance coverage may be the result. A sample of the loan files is reviewed to verify the bank is following its stated procedures. It is important to point out that examiners do not examine each and every loan transaction.

The examination procedures OCC uses are effective in identifying those banks with deficiencies in FDPA compliance. Last year, of the 701 banks receiving a consumer compliance examination, 30 percent (210) were in violation of some aspect of the FDPA. Approximately 3 percent failed to require flood insurance coverage or ensure the policies were renewed. Other violations fell into the technical categories, such as using outdated maps or failing to provide the required notification. If it has been determined that a bank failed to see that flood insurance was obtained or maintained, we will request that the bank obtain the insurance. Either the customer pays or the bank pays.

In addition to the above procedures, we issue banking bulletins and advisory letters to all national banks and examiners. These issuances alert [illegible]

[illegible] complying with FDPA and additional tools for this purpose.

I would now like to offer suggestions for improving compliance procedures. We are concerned that the effectiveness of the flood insurance program is undermined by its uneven application under current law. As you know, federally insured financial institutions are required to ensure that appropriate flood insurance is in place on affected real estate loans. However, independent mortgage companies are not covered by the FDPA. Some of these lenders do require flood insurance so they can sell their mortgages in the secondary market. We believe that the issue is not how many of these lenders do not require flood insurance but one of the competitive fairness and, therefore, we suggest that the FDPA apply to all mortgage lenders.

On the issue of escrow accounts we are finding banks that are escrowing flood insurance routinely. We encourage banks to consider escrowing flood insurance if they escrow other types of insurance. We have also asked HUD to consider placing flood insurance on the HUD-1 form as a reminder to both the lender and the borrower. We feel that the decision to escrow is best left to national banks.

It is our understanding that there have been suggestions that mandatory fines be imposed against institutions that are in violation of the FDPA. The OCC has in place at the present time a means of imposing civil money penalties on banks. We believe that it is essential that any money penalties or fines be imposed through the banks' supervisory agency and imposed only in the context of the total approach to supervision.

We would like to suggest that a more efficient method of identifying properties in flood zones be developed. With the advancements in mapping technologies, such as digital mapping techniques, the availability of better quality maps would be a real asset to lenders and appraisers. There is some evidence that suggests that more flood policies would be written if lenders had a more efficient means of identifying properties in flood hazard areas. There has been a recent surge in the number of private sector companies that sell or market flood zone property locations to lenders. This cost is then passed on to the borrower. We would encourage a review of alternatives to the present mapping system as well as upgrading the present flood maps.

This has been just a brief overview of OCC's compliance efforts with the FDPA and some suggestions on how overall compliance with the FDPA may be achieved.

In conclusion, Mr. Chairman and members of the Subcommittee, I would like to thank you for this opportunity to present OCC's position and views on these important subjects.

Remarks by Robert L. Clarke, Comptroller of the Currency, before the OCC Conference "Issues and Bank Initiatives in Low- and Moderate-Income Housing and Fair Lending," Washington, D.C., June 15, 1989

I am, by training and profession, a lawyer. As a group, we lawyers are known to be as unsentimatal a bunch of people as you would ever want to meet. Tough. Hard-boiled.

Many stories have been told to illustrate that quality. The one I like the best goes like this. A young lawyer was trying desperately to make it in private practice without success. One day, as he sits in his office contemplating a stack of unpaid bills, he notices a [illegible] grinning at him from a corner chair. "Who are you?" the lawyer demands. "I am the Devil," says the [illegible]. "I'm [illegible] to offer you a deal.

[illegible] for 75 years [illegible] you will be the [illegible]. You will be rich and [illegible] you will become famous, the idol of law students, the envy of your peers, and the legal luminary of your generation. You will enjoy these benefits for exactly 75 years. Then you will die quietly in your sleep and your soul will become mine for all eternity." The lawyer takes a long thoughtful pause, then says, "Okay, what's the catch?"

Yes, as a group, we lawyers are awesomely hard-boiled and tough. When we look reality in the eye, we don't blink.

It is clear to all of us in this room today that there is a demand for low- and moderate-income housing in this country. This demand is increasingly recognized as a domestic priority by both the public and private sector, and the two related issues of fair housing and fair lending are receiving increased national attention as well.

It's just as clear, too, that concern is growing over whether we as a nation are meeting the demand for low- and moderate-income housing. That concern is growing in the Administration. That concern is growing in the Congress. And that concern is growing in the private sector.

The response to that concern is growing as well. And it is no miracle that banks — and bankers — are a part of that response. Banks across the country are joining into public/private partnerships, national and local, to address the demand and help meet it.

Bank involvement is pivotal in forging and helping finance these public/private partnerships. Why? National, state and local budgetary constraints make private investment an increasingly important fulcrum in leveraging scarce public funds for community development.

President Bush has recognized tht the need for low- and moderate-income housing is a national concern. In remarks at the swearing-in ceremony for Housing and Urban Development Secretary Jack Kemp last February, the President called the areas of housing and urban development "among the most important and challenging issues in America today."

President Bush also said then: "Where whole neighborhoods have been blighted and boarded up sometimes by misguided policies, I want to change those policies and empower residents to rebuild their neighborhoods, with the public and private sectors working together. And I think you know how strongly I feel, but let me say it again: I am committed to equal housing opportunity for all our citizens and to strong enforcement of the laws against discrimination."

Mr. President, we who serve you in your Administration get the message. Secretary Kemp certainly did. He has been eloquent in describing his concern. He has said: "The American dream of ownership, opportunity, jobs and fair housing and shelter must be recaptured for our inner cities and for those people who live today in poverty and despair, and I will pledge to work with the Congress to develop a budget that will help meet these human and social goals."

Specifically, Secretary Kemp has cited "affordability of housing" and "fair housing" to be among HUD's five priorities under the Bush Administration. And he has stated that, in addition to public financing for low- and moderate-income housing, "we must form partnerships between the public and private sectors to provide low-income housing."

The Congress, too, has expressed concern on the issue of providing housing to those with low and moderate incomes. The proposed National Affordable Housing Act of 1989 — the Cranston-D'Amato Housing Bill — calls for establishment of an agency in HUD to fund grants for local and state governments and non-profit groups to create more housing. In addition to the National Affordable Housing Act, a host of other bills directly addressing low- and moderate-income housing issues have been introduced in the Congress.

In the fair housing/fair lending area, the Congress enacted the Fair Housing Amendments Act of 1988. Among its provisions, this law extended coverage to families with children and persons with handicaps.

As it is with the Administration and the Congress, so, too, it is with the private sector. Expressions of concern are numerous. To take one example, in 1987, the National Association of Realtors, the National Association of Home Builders, and the Mortgage Bankers Association of America issued a joint "National Housing Policy" statement recognizing the issues and proposing national policies to address them.

Bankers, as I said, are also responding to national concern about housing and fair lending issues. Banks have the resources and expertise needed to help meet the need for low- and moderate-income housing, as well as the responsibility under the Community Reinvestment Act to help meet the broad credit needs of their communities.

We see bankers increasingly seeking a productive role — and specific programs in which to play a role — to address the demand for low- and moderate-income housing in their communities and to devise creative fair lending strategies. They show, be example, how banks can help meet this national challenge.

Bank response in these areas is being demonstrated in many ways, including participation in local public/private partnerships to develop, rehabilitate and finance low- and moderate-income housing, formation of lender consortia to pool risks and to recycle financing for low- and moderate-income housing, creation of innovative marketing programs aimed at low- and moderate-income and minority neighborhoods, utilization of community development corporation (CDC) investments in innovative ways to provide much needed equity financing for low- and moderate-income housing, and inclusion of community development lending objectives in the bank's strategic plan, as well as creation of distinct community development components in the bank's organization.

[illegible] a few moments to look briefly at an example of each of these responses. First, participation in local public-private partnerships to develop, rehabilitate and finance low- and moderate-income housing. The Wisconsin Partnership for Housing Development, in collaboration with 13 banks and savings and loan associations, the City of Milwaukee, and private corporations and foundations, has committed $12 million to a revolving loan fund to finance low- and moderate-income housing. The fund, in turn, provides low-cost, short-term financing to community-based organizations and agencies in Wisconsin working to revitalize central city neighborhoods and produce low- and moderate-income housing. The lending institutions make their funds available at cost, and provide expertise to the committee that manages the loan fund. Capital from the revolving loan fund is always used to leverage other sources of project financing.

Since its creation in 1987, the fund has financed 227 housing units, representing $3.4 million in total loans. Because interest is at lenders' cost and city funds are included at 2 percent, interest rates for these loans have ranged from 4.5 percent to just over 7 percent.

Second, formation of lender consortia to pool risks and to recycle financing for low- and moderate-income housing. The oldest and best known example of this kind of response is the Community Preservation Corporation (CPC) in New York City, which was founded 14 years ago by New York's major commercial and savings banks. Working closely with the city government, CPC has invested $250 million in low- and moderate-income housing, making it the largest such financier in New York City. In 1988, CPC financed construction starts on 2,215 housing units. A dozen commercial banks, including three national banks, are CPC participants, along with approximately 20 S&Ls and seven insurance companies.

Third, creation of innovative marketing programs aimed at low- and moderate-income and minority neighborhoods. In 1987, the National Bank of Detroit helped found the Detroit Neighborhood Alliance, an organization created primarily to address housing needs in Detroit neighborhoods and to provide credit information and enhance mortgage and home improvement loan applications in Detroit, particularly in low- and moderate-income neighborhoods. The bank pays the salaries for two Alliance employees to help [illegible] borrowers assess their own qualifications [illegible] them in applying for credit. The [illegible] $100 to the Alliance for every [illegible] by the [illegible] mortgage program.

[illegible] community development corporations [illegible] to provide much needed equity financing for low- and moderate-income housing. The First Wisconsin Community Investment Corporation (CIC) — a Community Development Corporation subsidiary of First Wisconsin — illustrates this approach. The First Wisconsin CIC has converted an abandoned warehouse into low- and moderate-income rental units for two purposes: to supply housing and to act as a catalyst in attracting other investments to redevelop a deteriorated neighborhood close to Milwaukee's downtown.

Another such catalyst is CIC's conversion of a nearby vacant department store into 14,000 square feet of office space, 80 percent of which is leased. A third catalyst, still in the planning stages, will be the conversion by CIC and others of a historic property eligible for the historic tax credit into a combined commercial and residential project for low- and moderate-income residents. First Wisconsin CIC purchased the vacant warehouse for conversion to housing about two years ago. An investment of $300,000 produced the Atlas Apartments: 10 new units of moderate income housing rented at below market rate prices. Low income residents also receive rental assistance from the city.

Fifth, and finally, there is the inclusion of community development lending goals in a bank's strategic plan and creation of distinct community development components in a bank's organization. In 1980, First National Bank of Boston formed a Community Investment Division to coordinate and expand its community development efforts. The division has a staff of five, including specialists in housing development and rehabilitation, commercial revitalization and industrial development. The division serves as a central resource for other bank divisions and branches in several ways.

It helps develop special lending programs for housing construction and rehabilitation, small and minority business development, commercial revitalization, and industrial development. It serves as a focal point for bank liaison with city and state agencies, nonprofit development groups and other participants in housing, community and economic development programs or projects. It helps nonprofit groups, developers, small business and state and city agencies assemble financing packages to facilitate bank credit extensions for community development projects. And it works with the bank's public affairs department to coordinate use of corporate contributions to support local community development organizations and projects.

At the OCC, we commend these and other efforts to help meet community development, low- and moderate-income housing and fair lending needs and we are particularly pleased by bank participation in them. We want to encourage banks to take the initiative

in helping to meet community credit needs in ways that are consistent with safe and sound banking practices and in compliance with the law.

We encourage banks to take the initiative in a number of ways. Using our compliance examination process, we undertake to assess and assure bank compliance with CRA, Fair Lending regulations, and other statutes and regulations. We will continually review this process to be sure that it is working effectively.

We educate bankers and make clear what we expect banks to do to comply with laws and regulations. The CRA Policy Statement that we, along with the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board, issued last March is one example of our effort.

I want to take this occasion to announce a change. Today we are releasing a Banking Circular describing our intention to disclose corporate application decisions which involve CRA-related conditional approvals, denials and CRA protests. We plan to begin this disclosure in July.

Under current procedures, CRA-related corporate application decision letters have been available to banks and the public upon request. In addition, summaries of some CRA-related decisions have appeared in the OCC's *Quarterly Journal*. The Office believes that publication of CRA-related decision letters will facilitate broader bank and public access to information on actions taken by the Office with respect to its statutory responsibilities. It also will provide banks with additional guidance about how the Office uses assessments of bank CRA performance when deciding certain corporate applications.

This afternoon's regulatory issues panel will discuss this and other supervisory efforts in more detail. I encourage you to ask questions if there are any doubts in your mind about where we stand.

What else do we do to encourage banks to take the initiative? We reach out to banks — through the OCC's Customer and Industry Affairs Division — to provide information about specific programs to help meet community credit and fair lending needs and to communicate customer concerns.

How? In meetings like this one, in publications, and in personal contacts. And we demonstrate to other bankers what you already know, that bank strategies that are good for the community are good for the bank, too.

The kind of lending I've talked about this morning can contribute to the growth of business and the economy in the regions where it occurs, generate employment opportunities and support residential and commercial development and property improvement. That kind of lending can be good business.

Bank managements should work to help assure that the credit needs of their communities are met — not because some law requires them to or because a regulator insists on it — but because it is good business to do so. Lots of bank managements do. And other bankers can learn from them.

We haven't sponsored this conference because we expect miracles from bankers. Instead, we welcome you here because you see the challenge and recognize the opportunity. And we hope to encourage you, not only in your own efforts, but also in your example to your colleagues in the industry. Thank you for your interest and your participation today.

Statement of Robert J. Herrmann, Senior Deputy Comptroller for Bank Supervision Policy, before the House Subcommittee on International Development, Finance, Trade and Monetary Policy of the Committee on Banking, Finance, and Urban Affairs, Washington, D.C., June 27, 1989

Mr. Chairman and members of the Subcommittee, thank you for this opportunity to discuss the impact of developing country debt on U.S. banks. As the principal regulator of national banks and federally licensed foreign banks, the Office of the Comptroller of the Currency supervises a number of financial institutions that hold foreign debt and that do business in the developing nations of the world. It is our job to make sure that banks are operated in a safe and sound manner as they respond to initiatives such as the one put forth by Secretary of the Treasury Brady concerning developing country debt. Like the other federal bank regulatory agencies, we have instituted programs and regulations aimed at limiting the risks to the banking system from loans to developing countries. We pay careful attention to the steps taken by banks and their

[illegible] creditors to manage debt repayment. We will continue to work closely with the other bank supervisors, other federal agencies, and the international community, to find flexible ways to respond to the developing country debt problem while protecting the safety and soundness of the banking system.

As you requested in your letter of invitation Mr Chairman, my statement this morning will summarize briefly the conclusions of two reports that the OCC, in conjunction with the Federal Deposit Insurance Corporation and the Federal Reserve Board, submitted to the full Committee earlier this year in compliance with Sections 3121 and 3122 of the Omnibus Trade and Competitiveness Act of 1988. Executive summaries of those reports are appended to this statement. I will then discuss the topics raised in your letter as they relate to the OCC's supervisory responsibilities.

Summary of Findings

Study on Accounting and Regulatory Policies Affecting Debt Restructuring

We concluded that current regulatory and accounting policies have not prevented banks that were otherwise inclined to do so from participating in a wide range of negotiated debt reduction transactions with borrowing countries. Banks have implemented a number of practices that reduce contractual debt-service obligations of developing countries. These include discount buybacks of debt, debt exchanges, such as the Mexican bond issue, and debt-for-equity swaps.

Study on The Risks to The U.S. Banking System Posed by Troubled Foreign Loans

In this study, we reported that the exposure of U.S. banks to countries with debt-servicing problems has declined significantly since 1982. In 1988 the 22 large, internationally active U.S. banks surveyed for the study reported loan sales or swaps in excess of $9 billion dollars and disbursed new term lending of approximately $2 billion in 1988. Since the early 1980s, we have strengthened the supervisory framework applicable to the international lending operations of U.S. banks. The actions of the regulators and measures taken voluntarily by banks have resulted in reductions in bank exposure to developing country debt. Nonetheless, the remaining levels of exposure at larger U.S. banks [illegible] careful management and regulatory [illegible].

Issues Raised in Letter of Invitation

Implementation of ILSA

As the OCC has reported to Congress in other forums, it is our view that the International Lending Supervision Act of 1983 (ILSA) continues to provide an appropriate legislative framework for supervising international lending activities of U.S. banks. It has permitted us to establish a good supervisory guide for monitoring international lending. We do not think that basic changes in the process are called for.

Let me describe briefly how the five major objectives of ILSA are being pursued by the Federal banking agencies.

Disclosure. We collect data related to the international lending activities of U.S. banks quarterly. Those data provide valuable information and have enabled the bank regulatory agencies to better supervise cross-border exposures. That information is available to the public on an aggregate basis and thereby provides an opportunity for them to become better informed about the international lending of U.S. banks.

Strengthened Bank Supervision. Review of how a bank manages its developing country lending exposure is an important facet of our supervision of heavily exposed banks. That review includes an evaluation of (1) management information systems, (2) the adequacy of general loan loss reserves, and (3) the bank's overall capital position. Based on our reviews, we have encouraged banks with significant exposures to strengthen their loan loss reserves and capital. Going forward, the recently announced risk-based capital guidelines will provide an additional supervisory incentive for banks to examine carefully the relationship between the risks they assume and their capital positions.

Special Reserves. To ensure the uniform supervisory treatment of cross-border lending by U.S. banks, federal banking agencies act through the Interagency Country Exposure Review Committee (ICERC) to assess transfer risk. Loans to countries with protracted external debt-servicing difficulties are categorized as "Value Impaired," and banks are required to establish mandatory Allocated Transfer Risk Reserves (ATRR) against those loans. It is ICERC policy not to disclose specifics on particular countries. I can tell you, however, that in the past year ICERC classified loans to four additional countries as Value Impaired, and additional ATRRs were required for loans to certain countries that had previously been classified as Value Impaired. ATRRs have been required for loans to 12 countries.

International Cooperation. The federal bank regulatory agencies have provided flexibility to accommodate the loan rescheduling process. In addition, we have opened and improved lines of communication with foreign bank supervisors by participating in conferences to provide instructional assistance and discuss common concerns. We have also aided developing countries by serving as consultants on several IMF and World Bank missions to endorse financial reforms, including stronger bank supervision.

Accounting for Fees. ILSA imposed requirements for fee accounting that were aimed at limiting the ability of banks to recognize as current income front-end fees on rescheduled developing country debt. Accounting for fees was addressed by Financial Accounting Standard (FAS) No. 91 as well. As of January 1, 1988, loan fees on domestic and international activities must be spread over the life of the contract.

U.S. Exposure to Developing Countries

At yearend 1988, 171 U.S. banks reported holding $259 billion in cross-border, non-local currency claims of foreign borrowers. Of that amount, $77 billion was due from troubled developing country debtors. This figure represents a $25 billion reduction in the aggregate exposure of the U.S. banking system to such debtors since yearend 1982.

Over the same period, the aggregate primary capital of the U.S. banks with loans to troubled developing countries has more than doubled, from $58 billion to $131 billion. Expressed differently, these banks lowered their exposure to 59 percent of aggregate primary capital at yearend 1988, down from 176 percent at the end of 1982. The earnings of banks with significant exposures to developing countries have also strengthened.

We welcome these developments, but we must keep them in perspective. Regarding the reduction in developing country loan exposure relative to capital, it must be recognized that bank capital provides a buffer against losses in a bank's entire portfolio of assets— of which loans to troubled developing countries are only a part. Moreover, higher capital in the system does not provide protection when an individual bank experiences problems.

Regarding earnings, it is important to recognize that, for 1988, they were increased significantly by the resumption of interest payments by Brazil. Also during 1987, banks with exposures to troubled developing countries set aside from current income record provisions for possible losses on their developing country loans. Comparably large provisions were not made in 1988. We cannot rule out, however, the possibility that substantial provisions will be necessary in the future. Thus, it would be a mistake to conclude that the most recent earnings reports represent a fundamental movement toward record levels of profitability in the banking industry.

Valuing Debt Based on Secondary Market Prices

The strategies for managing international debt exposures have undergone modifications in the past few years. A broad array of market-based options in negotiated restructuring agreements between banks and debtor countries has developed. Many banks now consider publicly quoted secondary market prices in their evaluation of options included in financing packages.

Since mid-1987, there has been a decline in secondary market prices. An index of secondary market prices of bank loans to the Baker 15 countries fell from nearly 60 cents on the dollar in mid-1987 to around 35 cents on the dollar at mid-1989. Price declines have been most severe for bank loans to countries that have not successfully implemented adjustment and reform efforts. Since the announcement of the Brady Initiative in March 1989, however, secondary market prices for the debt of the countries most likely to be affected by the initiative has increased.

Nonetheless, the market does not differentiate sharply, through secondary market discounts, among a number of debtor countries with significantly different debt-service capacities. Quoted prices are often more an indicator of short-term supply and demand factors than a reflection of ultimate value of loans if held over the medium- to long-term. Much of the traded volume in the secondary market consists of sales by lenders willing to accept a sizable discount simply to rid themselves of any developing country loans. Also, the secondary market is not particularly deep. Developing country borrowers owe more than $375 billion to foreign and U.S. banks, yet the total volume in the secondary market in 1988 was approximately $30 billion, 8 percent of the outstanding loans to developing countries.

For those reasons, the OCC does not believe that it would be appropriate to rely solely on prices quoted in secondary markets to determine the appropriate level of reserves for LDC loans. That practice would turn an evaluation that requires a careful consideration of the long term collectibility of the outstanding debt and the application of skilled judgment into an arbitrary, mechanical exercise. Furthermore, forcing banks to value their developing country loan portfolios to secondary market prices would place U.S. banks at a competitive disadvantage internationally [illegible]

this audit requirement. Nonetheless, we recognize that secondary market prices provide useful information, and we will continue to use them as one element in our assessments of reserve adequacy.

Accounting and Regulatory Provisions

It is the policy of the OCC to review transactions involving reductions in debt or debt-service obligations in a flexible and accommodative manner, consistent with our obligation to protect the safety and soundness of the national banking system. The federal bank regulatory agencies and the Treasury Department have taken steps to facilitate transactions that contribute to debt reduction.

Accounting. Bank regulators do not set accounting policies. Rather, they are determined by professional bodies such as the Financial Accounting Standards Board. Accounting policies are designed to portray in an accurate and consistent manner the financial condition of institutions and the financial effects of management decisions. They are not intended to encourage or discourage any actions that management considers to be in the best interest of the institution. The OCC has historically taken the position that banks should employ conservative accounting practices. Therefore, we do not encourage the creation of accounting incentives for debt reduction.

Financial Accounting Standard No. 15 (FAS 15), the GAAP directive on accounting for troubled debt restructurings, was issued by the Financial Accounting Standards Board in 1977. Basically, it states that a restructured loan should continue to be carried by a bank at its previously recorded value, as long as the sum of interest and principal cash payments expected to be received over the life of the restructured loan is at least equal to the bank's carrying amount. In effect, the bank does not have to recognize any loss as long as it is confident that under the new loan terms it will fully recover the carrying amount of the loan. Thus, the bank may be allowed to avoid a current loss, but it will report reduced interest income in future years. In practice, most commercial banks have not made use of FAS 15, because of disclosure obligations and other market valuation considerations.

Regulatory initiatives. The OCC has taken steps to encourage debt reduction through the use of debt-equity swaps and debt securitization transactions in [illegible] Brazil, Mexico [illegible]. Debt equity swap [illegible], in the opinion of the OCC, facilitate [illegible] solution to the problem of external [illegible] developing countries. [illegible] swaps convert [illegible] payment obligations into poten[illegible] [illegible]

tries that may pay cash dividends and appreciate in value, improving prospects for ultimate collectibility of the remaining debt. To date, nearly $15 billion of voluntary debt-equity swap transactions have taken place in the largest debtor countries.

In the final analysis, the most compelling incentive for creditors to engage in a debt-reduction transaction is the realization that, after the elimination of a significant portion of the original stock of debt, the remaining debt will be worth more to creditors. It is axiomatic that a smaller financing shortfall, improved debt-service and coverage ratios will enhance the debtor country's ability to service remaining debt. In line with the Administration's debt strategy, debt reduction and debt-service reduction should help achieve these results.

Possible Impact of the Brady Initiative

The OCC believes the new debt strategy, announced by Secretary of the Treasury Nicholas Brady at the Bretton Woods Conference on March 10, 1989, is an important and constructive approach to resolving the developing country debt problem. Because no transactions have been finalized under the initiative, it is difficult to say what its precise effect on banks will be. I can assure you, however, that we would not allow, nor would the initiative encourage, debt-reduction actions that would impair the safety and soundness of the banking system. Secretary Brady's framework emphasizes reductions in debt and debt-service obligations as an alternative means of financial support for the reform efforts of debtor countries, which will reduce the need for new loans and improve the ability of debtors to meet their debt-service obligations.

Appendix I

Study on Accounting and Regulatory Policies Affecting Debt Restructuring

Executive Summary

Section 3122 of the Omnibus Trade and Competitiveness Act of 1988 requires the federal bank regulatory agencies to report to Congress on any regulatory obstacles to negotiated reductions in debt service to banks by borrowing countries. Congress stipulated that the report should analyze regulatory and accounting policies affecting various forms of debt restructuring, including an analysis of the impact of various debt restructuring techniques on the secondary market for developing country debt and of the effect of these restructurings on the safety and soundness of the U.S. banking system. This report presents the findings of the agencies with regard to these issues.

Current regulatory and accounting policies have not prevented banks that were otherwise inclined to do so from participating in a wide range of negotiated debt reduction transactions with borrowing countries. This conclusion is supported by the fact that a wide range of options that have the effect of reducing contractual debt service to banks have already been implemented. These include discounted buy backs of debt, debt exchanges such as the Mexican bond issue, and debt for equity swaps.

This report looks first at the decision to renegotiate, which is a matter exclusively between a bank and the borrower; a decision that is made independently of accounting policy. It then analyzes how accounting policies attempt to provide an accurate reflection of the financial condition of banks and of the financial impact of management's actions. In this context, the report reviews the major accounting policies that are relevant to the various mechanisms that have been used to renegotiate or reduce developing country debt to banks. This includes a discussion of generally accepted accounting principles (GAAP) and the nearly identical principles underlying regulatory reporting requirements. The report then analyzes certain regulatory policies, not related to accounting, that can affect restructuring of developing country debt. Specifically discussed are policies that have accommodated debt for equity swaps and the effect on sovereign debt reschedulings of the legal limits on loans to and security holdings of one borrower. The report then reviews the reaction of the secondary market to changes in the methods for dealing with developing country debt problems. Finally, the report comments on the effect of debt renegotiations on the safety and soundness of U.S. banks.[1]

Appendix II

Study on the Risks to the U.S. Banking System Posed by Troubled Foreign Loans

Executive Summary

Section 3121 of the Omnibus Trade and Competitiveness Act of 1988 requires the Federal bank regulatory agencies to report to Congress annually on the risks to the U.S. banking system posed by troubled foreign loans. Congress stipulated that the report should include the following information:

1) The level of loan exposure of banking institutions to countries with debt servicing problems, the amount of these loans written off or sold, and new lending to those countries within the preceding year.

2) Progress achieved by the banking agencies and by the banking institutions through regulatory and voluntary policies in reducing the risks to the U.S. economy posed by the level of loan exposure of the banking system to troubled international loans.

3) The relationship between lending of U.S. and foreign banks to countries with debt servicing troubles and exports of the U.S. and other countries to these markets; and the extent to which U.S. banking institutions can be encouraged to finance growth in international trade, particularly to finance U.S. exports.

4) The response of regulatory agencies in other countries to the international debt problems, including measures which encourage building of capital and reserves, tax treatment of reserves, encouragement of new lending to promote trade, and measures that may place U.S. banks at a competitive disadvantage with foreign banking institutions.

5) Steps that have been taken during the previous year by countries experiencing debt servicing difficulties to enhance conditions for private direct investment and to eliminate production subsidies, attain price stability, and other steps taken to remove the causes of their debt servicing difficulties.

U.S. bank exposure to countries with debt servicing problems has declined significantly since the beginning of the international debt crisis in 1982. Loan sales and other debt reduction techniques more than offset new lending during 1988. Twenty-two large internationally active U.S. banks surveyed for this report had loan sales or swaps in excess of $9 billion dollars as compared with disbursed new term lending of approximately $2 billion in 1988.

These and other developments have reduced the vulnerability of the U.S. economy in general, and the U.S. banking system in particular, to debt servicing difficulties of developing countries. However, the management by U.S. banks of exposure to these countries in a safe and sound manner continues to [illegible]

[1] The report, as directed by Congress, also contains a brief discussion of the profitability of bank lending to developing countries over the ten year period ending December 1986. However, that discussion is extremely limited in view of the fact that the agencies do not have the data to provide a meaningful analysis. The agencies are conducting a survey to gather the necessary information and will provide a full analysis to the Congress by May 31, [illegible]989.

of the U.S. bank regulatory agencies. The agencies implemented a number of steps to strengthen the supervisory framework applicable to the international lending activities of U.S. banks. These steps, including amendments to regulatory policies and strengthening of examination procedures, along with voluntary actions by the banks, have resulted in decreased exposure to countries with debt servicing problems and increased capital in the U.S. banking system.

The debt servicing problems of a number of developing countries have had some negative effect on U.S. exports, especially in the early 1980s; however, other factors have significantly affected U.S. exports. Although there has been a decline in the share of total U.S. exports accounted for by countries with debt servicing difficulties, U.S. exports to all countries—both heavily indebted and industrial—declined from 1980 to 1982 but have risen subsequently. Enhanced creditworthiness of developing countries through appropriate economic and structural adjustment policies and possible modifications to the role of the Export-Import Bank would further encourage additional financing of U.S. exports.

Bank regulatory authorities of the major industrial countries have closely monitored the effects of developing country debt problems on their banks. The banking authorities of these countries have sought to strengthen the global banking system through increasing capital of internationally active banks. Within other major countries, banks have established significant reserves against developing countries debts either voluntarily or by supervisory mandate. Unlike the United States, most of these countries permit the tax deductibility of bank reserves against loans to countries with debt servicing problems.

Since 1982 most countries with debt servicing difficulties have taken measures to improve their economic performance and enhance their creditworthiness. Additional steps were implemented by several countries during 1988 to foster private sector enterprise and reduce government intervention in markets. Structural and macroeconomic policy adjustments aimed at achieving price stability and restoring sustainable growth have contributed to improved conditions for private direct investment within several developing countries.

Statement of John H. McDowell, Director, Consumer Activities Division, before the Senate Subcommittee on Consumer and Regulatory Affairs of the Committee on Banking, Housing and Urban Affairs, Washington, D.C., July 31, 1989

Introduction

Mr. Chairman, I am here today to discuss the Office of the Comptroller of the Currency's (OCC) efforts under the Community Reinvestment Act (CRA) and to respond to the specific questions posed in your July 6, 1989 letter. The OCC supports the objectives of the CRA and oversees bank performance through a program that encourages positive action by the national banks. Cooperation among the OCC, the banks, and the banking public is essential to this effort.

My testimony today will focus on the supervisory process employed by the OCC to fulfill its responsibilities under the CRA. The first section describes how our supervisory efforts for CRA are integrated into our general approach to bank supervision. The next section provides a more detailed analysis of our examinations and our efforts to maintain an ongoing dialogue with bankers and community groups and with na[illegible]. The last section of this testimony outlines [illegible] appropriate disclosure of in[illegible] forms of public par[illegible]

OCC's Supervision for CRA

The OCC's responsibilities under CRA are discharged in acccordance with our overall supervisory philosophy. First and foremost, a bank's performance is the responsibility of its board of directors and management. Banks must establish policies and procedures consistent with the spirit and intent of the CRA and systems of control to ensure that those policies and procedures are effectively implemented. During examinations, we monitor whether the banks' systems work, and we require changes when necessary. Our dual strategy of requiring systems for bank compliance with the law and monitoring the performance of those systems underlies our supervisory process, not only with regard to the CRA, but with regard to all assessments of bank compliance.

The Compliance Program

Since early 1987, the OCC has assessed a bank's performance under CRA as one facet of its review of compliance with a number of laws and regulations. The

Compliance Program includes procedures for determining adherence to the Bank Secrecy Act, fair lending laws such as the Equal Credit Opportunity and the Fair Housing Acts, insider and affiliate transactions; consumer protection laws, such as the Truth in Lending Act, adherence to fiduciary principles in the performance of fiduciary duties and compliance with CRA. The operations of electronic data processing centers and bank dealer activities are also examined

Each year, we select a statistically valid random sample of national banks with assets of less than $1 billion for an in-depth review of their compliance efforts and accomplishments. National banks with assets in excess of $1 billion are examined every other year. Although we do not examine every bank every year for compliance, we believe the sample size is sufficiently large to allow us to determine whether national banks are, in general, meeting their CRA responsibilities. Those banks that we do not examine in a particular year have an incentive to comply with the law because of the uncertainty associated with being selected in the sample.

In addition to the CRA assessments conducted in the sample of banks, other CRA assessments are conducted through targeting and special investigations. Banks may be targeted for CRA examinations if they are known to be planning an expansion through merger or branching, if unsatisfactory operating procedures are discovered through the commercial examination, or if the supervising examiner determines that the previous CRA assessment is outdated. Later in my statement, I will describe in some detail our specific examination efforts regarding CRA

The OCC does not rely solely on examinations to encourage banks to meet their CRA obligations. We also make sure, through the use of banking issuances and advisories, that bank management is aware of its compliance responsibilities. Advisories and banking bulletins, covering a broad spectrum of issues including speculative trading activities, disclosure of the method of calculating interest on deposit accounts, banks' investments in government securities mutual funds, home equity lines of credit, discounted variable rate mortgages, the Flood Disaster Protection Act, and the CRA Policy Statement (discussed in more detail later in this testimony) have been distributed to the industry

Our efforts also include OCC participation in formal industry education programs. In 1987 and 1988, the OCC, through its Consumer Activities Division, provided speakers for over 60 seminars and training sessions sponsored by trade and state banking associations and for individual banks promoting compliance with consumer protection laws and regulations. The OCC maintains an ongoing program of activities to facilitate increased banking industry sensitivity to customer and community needs. These activities, carried out principally through the Customer and Industry Affairs Division, are designed to

- Identify and assess key issues and concerns raised by bank customer groups and communicate these concerns to national banks.

- Provide information to banks through conferences, roundtables and publications highlighting a variety of positive approaches and program models banks can and do use to help meet special credit needs in their communities and fulfill their CRA responsibilities, and

- Promote the use of bank community development corporations and community development investments as one tool to help banks meet community credit needs.

Additional information concerning the OCC's educational and communications activities which supplement the CRA examination and corporate application processes is attached as Appendix 1 to this testimony

Another aspect of the Compliance Program consists of efforts to simplify compliance with regulations. For example, we developed a microcomputer program that makes it much easier to compute accurate annual percentage rates, in conformity with Federal Reserve Regulation Z. This program was distributed to all OCC examining staff, the FDIC, the Federal Reserve Board, the Federal Home Loan Bank System, and various state banking regulators. It is also made available to the banking industry through the OCC and the American Bankers Association.

After the completion of the first cycle of compliance examinations in April 1988, we analyzed the extensive examination data collected from the banks examined. The most important objective of the analysis was to develop information to improve industry compliance. Our analysis showed that, in general, financial performance and size of the bank are unrelated to compliance performance. The results of this analysis will enable us to develop more effective supervisory tools.

Finally, when we detect violations, we take appropriate action to require correction of detected problems. For the time period beginning with the inception of the Compliance Program through year-end 1988, [illegible] enforcement actions were taken against national banks solely on the basis of identified compliance problems. Another 208 enforcement actions were taken partially

[illegible] of [illegible] problems. By strictly re[illegible] action for detected problems, we are [illegible].

I will now turn to the OCC's examination efforts to specifically address the CRA performance of national banks.

The OCC's CRA Efforts

CRA Examinations

Compliance with the CRA is assessed through consideration of a number of both positive and negative factors. They include activities conducted by the bank to ascertain community credit needs, the extent of the bank's marketing efforts to make community members aware of credit services, participation by the bank's board of directors in formulating the bank's policies and reviewing its CRA performance, the existence of practices intended to discourage applications for credit from the local community; geographic distribution of the bank's credit extensions, applications, and denials; evidence of prohibited discriminatory practices, the bank's record of opening and closing offices, participation in local development projects, and the bank's origination of loans for residential mortgages, home improvement, housing rehabilitation, and small businesses or small farms.

Examiners assess a bank's CRA performance by reviewing its CRA Statement, ensuring the accuracy and completeness of products and services offered, and reviewing whether the community delineated by the bank is either too narrowly or broadly drawn. In discussions with line officers and management assigned to coordinate CRA related activities, and by reviewing the bank's documented evidence, examiners determine the bank's efforts to ascertain the credit needs of its entire community. The examiners then review the bank's loan policies and credit approval standards to ensure that, considering its resources and financial condition, it is helping to meet those needs and that such policies and procedures do not have an adverse effect on any consumer. Board minutes are also reviewed to ensure that the directors are informed of the bank's CRA-related activities, are active in formulating appropriate CRA related policies, participate in monitoring the bank's performance, and that the CRA statement is annually reviewed and approved. As appropriate, examiners also conduct meetings with local community groups to determine what their perceptions are of the community's credit needs and whether national banks in the community are helping to meet those needs.

Attached, as Appendix 2 to this testimony, is a table showing the twelve assessment factors used by national bank examiners in evaluating a bank's performance under the CRA and general examination procedures used for each factor.

Examination Results: CRA Ratings

The OCC uses the uniform interagency rating system for evaluating the performance of federally regulated institutions under the CRA. A rating is assigned to each financial institution based on the institution's performance in meeting community credit needs. This rating is based on a subjective analysis of the bank's performance and is but a general indicator of the bank's overall CRA assessment. Areas of evaluation include bank performance under the assessment factors detailed in the CRA regulation, comments from the community contained in the public files concerning bank performance under the CRA, and community contacts initiated by our office or by community groups. Banks may be given CRA ratings ranging from 1 to 5. The top rating a bank can receive is 1; a rating of 3 is given to banks whose CRA performance is less than satisfactory; a 5 rating represents a substantially inadequate record of helping to meet community credit needs. Appendix 3 to this testimony is a description of the Uniform Interagency CRA Rating System and the five performance categories identified within the rating system.

We do not believe that a large number of banks should necessarily fall into the 3, 4, and 5 rating categories. In general, we have found that banks historically have worked hard to meet local community credit needs, consistent with safety and soundness requirements, and that they continue to do so. However, we also note that increased training and sensitivity to CRA in recent years have improved our examiners' ability to evaluate bank CRA performance. This may account for the more critical ratings that we have recently experienced.

Following is a table that shows the distribution of ratings for the examinations conducted each year by OCC's district offices. The chart covers 1985 through June 30, 1989.

CRA Ratings by District

Year and districts	*Ratings* 1	2	3	4	5
1985					
Northeastern	27	36	1	0	0
Southeastern	40	126	2	0	0
Central	116	337	0	0	0
Midwestern	61	253	3	1	0
Southwestern	50	470	8	2	0
Western	22	177	5	0	0
Totals	316	1399	19	3	0
1986					
Northeastern	56	247	6	0	0
Southeastern	65	329	5	1	0
Central	180	552	6	0	0
Midwestern	118	599	7	0	1
Southwestern	89	921	13	1	0
Western	52	468	7	0	0
Totals	560	3116	44	2	1
1987					
Northeastern	23	138	7	0	0
Southeastern	25	181	11	0	0
Central	134	551	12	0	0
Midwestern	56	421	4	0	0
Southwestern	34	469	23	1	0
Western	11	176	5	1	0
Totals	283	1806	62	2	0
1988					
Northeastern	11	99	10	1	0
Southeastern	8	118	22	2	0
Central	60	328	11	1	0
Midwestern	10	172	10	0	0
Southwestern	3	160	33	1	0
Western	12	128	9	0	0
Totals	104	1005	95	5	0
January to June 1989					
Northeastern	2	38	7	0	0
Southeastern	5	36	5	1	0
Central	19	134	5	0	0
Midwestern	2	60	2	0	0
Southwestern	3	77	16	2	0
Western	1	50	6	0	0
Totals	32	395	41	3	0

[illegible] Reports to Bank Management

[illegible] board with [illegible] the report provided to the directors and management summarizing the results of the examination. The report normally [illegible] assessment of the bank's CRA performance and recommendations for improving that performance. These recommendations to enhance or improve performance are also discussed with management and the board of directors at the conclusion of the examination. This guidance helps promote a high level of CRA performance.

The examination report is also the key document used by the OCC in monitoring CRA performance. Field examiners use the report to review performance and prepare for subsequent examinations. District personnel use the report to ensure thorough supervision of examined banks and to develop supervisory strategies. Corporate analysts in the districts and Washington use the report in evaluating corporate applications.

Examination Time Devoted to CRA

In your letter of invitation, Mr. Chairman, you asked for information on CRA examinations, examination time and examiner training. I noted previously that CRA performance is assessed by examiners during all compliance examinations that we conduct and during targeted CRA examinations. The OCC does not have precise information on the amount of time devoted specifically to on-site CRA examinations. However, we estimate that approximately 20 percent of the time spent on the consumer protection portion of an on-site compliance examination is devoted to CRA. Based on this estimate, we have calculated the amount of time the OCC has spent examining for compliance with CRA. Those calculations are presented in the following table.

Workdays Devoted to CRA Examinations by Bank

Asset Size	*Work Days Per Bank Examined 1987*	*1988*
Under $50 million	2.5	2.0
$50 million to $100 million	2.5	2.7
$100 million to $300 million	3.0	3.4
$300 million to $1 billion	4.5	5.6
$1 billion to $10 billion	9.0	8.1
Over $10 billion	16.5	21.0

[illegible] Training

[illegible] CRA as part of their [illegible] training [illegible]

required to take a compliance self study course and a 40 hour tutorial on consumer protection laws produced by the OCC in cooperation with a banking trade association. Additionally, an 8-day consumer school is required for all examiners.

An advanced consumer compliance seminar is also offered to commissioned national bank examiners who have completed the district-sponsored consumer school and who conduct the consumer portion of compliance examinations. At the seminar, leaders from national banks, consumer and community groups, and other financial regulatory agencies offer different perspectives on a variety of consumer-oriented issues, including CRA. The OCC also offers a seminar, which includes CRA training, for managers who administer the compliance examination process in the field and who review compliance examination reports.

The following table reflects the number of examiners who have received consumer training, including CRA, from 1986 through yearend 1988. The majority of figures in the chart reflect examiners who were hired since 1985. Many other examiners received consumer/CRA training prior to 1986.

District	*No. of Field Examiners*	*No. of Examiners Trained*
Southeastern	239	122
Western	273	124
Midwestern	308	194
Northeastern	313	202
Southwestern	501	249
Central	353	197

Encouraging CRA Performance Through the Application Process

The CRA does not give the OCC or any other financial regulatory agency the authority to initiate administrative enforcement action when a bank's CRA performance is less than satisfactory. Enforcement of the CRA is primarily through the corporate application process.

The OCC considers the CRA performance of national banks when evaluating their corporate applications for charters, charter conversions, branches, mergers, and relocations of home and branch offices. This information is derived from examinations conducted in the course of the Compliance Program, from targeted examinations or special investigations triggered by a corporate application, from data collected under the Home Mortgage Disclosure Act, and from public comment.

OCC policies and procedures for the disposition of corporate applications offer extensive opportunities for

public comment. Those opportunities may be found in certain provisions of our regulation: 12 CFR Part 5, "Rules, policies, and procedures for corporate activities."

In particular, section 5.8 of that regulation requires an applicant to notify the public of its application by publishing a notice in a ". . . newspaper of general circulation in the community in which the applicant proposes to engage in business. The notice shall state that an application is being filed as of the date of notice, and the notice shall contain the name of the applicant(s) and the subject matter of the application." In addition to the requirement for public notice by the applicant, the OCC publishes a notification of receipt and disposition of applications in its *Weekly Bulletin*.

Section 5.9 requires the OCC to maintain a public file for each application. The public file contains the application and, with certain exceptions, supporting data and supplemental information filed by the applicant(s). It also contains ". . . all data and information submitted by interested persons in favor of or in opposition to such application . . ." Ordinarily, interested persons are given 30 days after the publication of the notice to provide comment. However, the OCC may extend the comment period if there are extenuating circumstances.

In accordance with the OCC's goal of processing corporate applications in a timely manner, extensions of the public comment period are rare. Extensions may be granted if the applicant failed to properly publish the notice of the application, or if the group desiring to protest is not located in the area where the applicant is required to publish, e.g., a group may want to protest a bank with statewide operations but may not see the notice of a branch application filed in another area of the state. Extensions are granted for a limited period of time, normally to allow the protester the standard comment period from the date they actually received notice of the application or from the date notice was published in the *Weekly Bulletin*. We believe, however, that concerned groups need not and should not wait to communicate their concerns or problems until a bank has filed a corporate application.

When applications are protested on CRA grounds, the OCC encourages, but does not require, further communication between the contesting parties. Any agreement they might reach is not subject to OCC approval or enforcement. However, during subsequent CRA examinations, the OCC may find evidence that a bank has undertaken activities based on an agreement. These activities would be considered as part of the OCC's normal review of the bank's CRA record and could be a factor in the assessment and rating. In assessing the bank's overall CRA performance, we also take into account any effects that may result from a bank's decision not to meet with community groups.

An institution's CRA assessment is measured by its past performance in helping to meet its delineated community's credit needs. In general, commitments made during the application process cannot be used to overcome a seriously deficient record of CRA performance.

The OCC has approved applications with specific conditions requiring the applicant banks to strengthen their CRA performance. Under such circumstances, the banks cannot consummate the transactions in question until they provide concrete evidence to the OCC that their CRA performance has been strengthened. As a result, the conditional approval approach provides the OCC with substantial enforcement leverage by explicitly tying improvement of a bank's CRA performance to its achievement of a desired objective. This procedure produces results, and communities benefit through the improvements made in response to the OCC-imposed conditions. If, on the other hand, the application was simply denied, the bank may not implement CRA performance improvements and the community would experience no benefit from the denial.

In addition to the OCC's action on the approval of applications, the objectives of the CRA can be promoted by meetings between applicants and concerned community groups while an application is in process. However, the OCC does not require or intervene in such meetings. We do not have the authority to approve any agreements that may be negotiated between applicants and community groups.

Following are tables reflecting the number and disposition of protested applications and the number of all CRA related applications.

Community Reinvestment Act Protests

Year of Action	*Type of Application*	*Number of Protests*	*Avg Processing Time*	*Target Processing Time*[1]	*Approved*	*Cond Approved*[3]	*Denied*[3]	*Withdrawn*
1985	Branch	2	72 days	45 days	2	0	0	0
1986	Charter	6	287 days	120 days	4	2	0	0
	Branch	2	94 days	45 days	2	0	0	0
	Merger	3	76 days	45 days	1	2	0	0
1987	Charter[2]	3	339 days	120 days	2	0	1	0
	Branch	5	158 days	45 days	5	0	0	0
	Merger	5	113 days	45 days	5	0	0	0
1988	Charter[2]	3	718 days	120 days	1	0	0	2
	Branch	4	268 days	45 days	4	0	0	0
	Merger	4	218 days	45 days	1	3	0	0

Notes Processing Times

1 Target processing time for district processing of an application under delegated authority Applications with a substantive protest cannot be decided by the district under delegated authority but must be decided in Washington by the Senior Deputy Comptroller for Corporate and Economic Programs The target processing time for Washington processing of those cases is 45 days, which is in addition to the district target processing time

2 The charter applications represent applications for District of Columbia charters protested by the D C Reinvestment Alliance Delays in decisions were related primarily to significant legal issues associated with these charters

Notes—Decisions

3 In addition during 1987, the OCC conditionally approved 8 applications based on CRA considerations where the application was not protested During 1988, the OCC conditionally approved 8 and denied 2 applications based on CRA considerations where the applications were not protested

Decisions—All Corporate Applications Covered by CRA

Year	*Number of Actions*	*Approved*	*Conditionally Approved*	*Denied*	*Withdrawn*
1987	2,195	2,085	49	17	54
1988	2 483	2 321	69	19	74

Other CRA Issues

Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act

In March of this year the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board and the Federal Reserve Board adopted this CRA Policy Statement to provide guidance to institutions and community groups and to clarify a number of issues that have arisen in enforcing the CRA

For instance institutions are presently required by regulation to prepare annually update and make available for public review a CRA Statement listing the [illegible] products they are willing to offer The new Policy Statement encourages each institution to significantly expand its CRA Statement to more accurately reflect the institution's overall approach to CRA describing [illegible] for marketing and advertising credit needs [illegible] and new product development including [illegible] and future plans The size re[illegible] of an institution will influence the [illegible] included in the [illegible]

One of the main purposes of the revised Policy Statement is to shift the emphasis away from the corporate application process to build stronger and more ongoing mechanisms for outreach and service by institutions to their communities We believe that the expanded CRA Statement is a better vehicle for doing that by focusing the attention of an institution's management, and of the public at large, on the institution's record on a continuing basis, and on any areas needing improvement

In the revised Policy Statement we have encouraged community organizations to take advantage of the expanded CRA Statements as a starting point for discussion, bringing their concerns to the attention of an institution's management and to the appropriate supervisory agency as they arise, rather than in the adversarial atmosphere of a protest at the time of a corporate application

Disclosure of CRA Ratings and Related Examination Comments

In light of these enhancements to the CRA assessment process and the need for communities to be informed of banks' efforts with respect to their lending activities, including those in low- and moderate-income areas, the OCC would not object to the public disclosure of a narrative summary of a bank's performance under CRA This will serve to increase the public's awareness of how well a bank is performing These summaries should not be the same as the examination report

comments, however. They would not include information of a confidential nature that is important for supervisory purposes, such as the financial condition of the institution, or any sensitive information about any of its employees, customers or members of the community.

Our objective is to inform the people of the community in a concise and forthright manner how well their local institutions are doing under the CRA. This will enhance the process initiated by the CRA Policy Statement by supporting ongoing and meaningful dialogue about CRA achievements and goals between the bank and its community.

Disclosure of CRA numeric ratings also has been proposed. As with safety and soundness ratings, CRA ratings historically have been held confidential by all the financial regulatory agencies. It is this agency's belief that such release would not serve the objective of keeping members of a bank's community informed of the bank's CRA performance. CRA ratings (like the other summary rating systems used by the banking agencies) serve an important, but limited, purpose for the supervisory agencies. In essence, the rating is the assignment of a quantitative value to the bank examiners' evaluation of a number of qualitative factors. It is an examiner's short-hand assessment of a bank's overall performance with respect to CRA and is only a general indicator of a bank's CRA performance.

In addition to the communication efforts encouraged in the CRA Policy Statement, the OCC issued Banking Circular 238, "Disclosure of CRA-Related Corporate Application Decisions," on June 15, 1989. The circular revises procedures for disclosure of corporate application decisions where CRA performance was raised as a concern and provides easier access to the information for national banks and the public. The OCC will publish its decision letter when corporate applications from national banks have been conditionally approved or denied on grounds related to the CRA. The Office believes that publication of CRA-related decision letters will facilitate broader bank and public access to information on actions taken by the Office with respect to its statutory responsibilities. The decisions will also provide banks with additional guidance about how the Office uses assessments of bank CRA performance when deciding certain corporate applications.

Publication of CRA Examination Schedules

The Subcommittee has asked for our comments on the proposal to publish, in advance, the agency's CRA examination schedule. We assume that the purpose of this proposal is to provide greater opportunity for public input in the CRA examination process. We believe, however, that current procedures, including the use of a bank's public comment file, examiners' interviews with community group members, and the use of expanded CRA Statements as encouraged by the new CRA Policy Statement, provide adequate opportunities for the public to communicate their concerns about bank CRA performance both to banks and their supervisory agencies. This process would not be enhanced, however, by the publication of the CRA examination schedule.

The scheduling of examinations is a very fluid process subject to constant change and adjustment. When new issues or priorities arise, bank supervisors must have the flexibility to assign examiners to address them. Publication of an examination schedule would place the office in the untenable position of restricting this needed flexibility.

Summary and Conclusion

The OCC has developed a comprehensive program to encourage national banks to help meet the credit needs of their local communities. We believe that we have developed a program that strikes the right balance between the competing demands for our supervisory resources. We use on-site examination programs to make sure that national banks comply with the law. We train our examiners to assess national banks' compliance efforts and accomplishments. We consider the results of our assessments in evaluating corporate applications and are requiring national banks to strengthen their CRA performance. We maintain contacts with community and banking groups to help ensure that all parties understand the needs and resources of each other.

We believe that most national banks help meet the credit needs of their local communities in the ordinary course of doing business. The OCC has not found it necessary to deny many applications on CRA grounds. Denials are a last resort. They are used only when the far more effective tactic of conditional approval has little, if any, chance of improving bank performance.

The purpose of CRA is to encourage financial institutions to assess and help meet the credit needs of their communities, including the low- and moderate-income neighborhoods, by utilizing their own expertise and resources. The OCC believes that it has implemented appropriate systems for assessing the level of performance under the CRA, encouraged improvements to national banks' performance through examinations, education, outreach and communications activities, and enforced the spirit of the statute through the corporate application process.

Other OCC Activities Related to the CRA

In addition to its use of the examination and corporate application processes, the OCC, primarily through its Customer and Industry Affairs Division, also provides encouragement to banks through an ongoing program of educational and communications activities to help increase banking industry sensitivity to customer and community needs. These activities are designed to:

- Identify and assess key issues and concerns raised by bank customer groups and communicate these concerns to national banks through publications, banking issuances, and advisories.

- Provide information to banks through conferences, roundtables and publications highlighting a variety of positive approaches and program models banks can and do use to help meet special credit needs in their communities and fulfill their CRA responsibilities, and

- Promote use of bank community development corporations and community development investments as one tool to help banks meet the community credit needs.

Outreach Activities

As part of the encouragement process, the OCC also coordinates activities to increase outreach with consumer and community groups, monitor CRA-related issues and offer feedback to the banking industry on issues and trends, including those related to the CRA. These activities help the OCC identify key issues concerning CRA enforcement and bank performance.

Formalized in 1984, OCC's outreach and monitoring program, through the Customer and Industry Affairs Division, includes (1) regular contact with nationally based bank customer groups, (2) special meetings and briefings focused on key issues, (3) development of publications and other information to alert banks to issues and encourage their responsiveness, and (4) assistance to customer groups, banking organizations, government officials and other groups to develop their own programs focusing on bank participation in housing, community and economic development finance.

[illegible] District Offices [illegible]

[illegible]

District Bank Customer Group Key Issues Meetings. In 1985 the OCC's Customer and Industry Affairs Division, in concert with the District Offices, conducted Bank Customer Group Key Issues Meetings in each of the OCC's six districts. The purpose of the meetings was to discuss a broad range of CRA, consumer, housing and small business issues and concerns and obtain customer group perspectives on bank and OCC performance. "Summary Reports" for each of those meetings were produced and provided to all national banks and selected customer groups in each District and to key OCC policymakers and other federal regulatory agencies.

National Bank Customer Groups Key Issues Meetings. To obtain a broader, national perspective, the OCC arranged a "National Bank Customer Groups Key Issues Meeting" in April of 1986 which brought together the Comptroller, senior OCC management and representatives of nationally based groups for a dialogue on banking issues affecting consumers, small businesses, community, civil rights, housing and state and local government organizations. A comprehensive summary of that meeting, which included a number of concerns national groups raised about CRA regulation and bank performance, along with OCC responses, was provided to all national banks, national customer groups, bank trade associations and other regulatory agencies. A similar meeting with nationally based groups was held in November 1988.

District Offices Community Outreach Program. In 1987 the OCC implemented a process under which District Offices conduct their own community outreach and contact programs to elicit customer group perspectives on bank performance under the CRA and other customer compliance laws. Information collected through these outreach programs is utilized during the CRA examination process and in District Office communications with banks on compliance issues.

Circulars and Advisories. Additional encouragement is provided to national banks through the issuance of special banking circulars and advisories. These alert banks to common issues and compliance concerns affecting national banks which the OCC has noted through examinations or its outreach and monitoring activities. CRA-related issuances have included:

- Banking Circular 189, "Branch Closings and Reductions in Service," which encouraged each national bank to develop and implement policies for branch closings to minimize adverse effects on the bank's community.

- Banking Circular 206, "Basic Banking Services," which encouraged national banks to

provide basic banking services to their customers, including low- and moderate-income, young and retired persons who may be unable to pay regular charges for conventional banking accounts

Participation in Banking and Customer Group CRA-Related Conferences/Programs. The OCC also provides ongoing assistance to banking organizations, customer groups, and other interested parties, to help them develop and implement informational programs and publications related to bank CRA compliance responsibilities and bank participation in special community financing programs. Over the last few years, OCC's activities have included the following:

- Comptroller Robert L. Clarke, senior OCC management and other OCC staff, have spoken at a number of conferences and workshops sponsored by the ABA, IBAA and other banking organizations on bank compliance and CRA issues.

- The Office provided assistance to the ABA in developing a Branch Closings Manual, which was designed to help banks make informed decisions when branch closings become necessary.

- Each year, the Office assists the Securities and Exchange Commission to plan its annual small business forum; in 1987, the SEC Forum focused on models and approaches used to provide equity and long-term financing for small businesses and included a number of bank-sponsored model programs.

- In November 1987, the Comptroller addressed a major conference sponsored by six national customer groups, "Community Rights and the Banking Industry," emphasizing the importance of the CRA and OCC's activities designed to encourage bank performance and accountability.

- Each year, the OCC assists many customer organizations to develop conferences and publications which feature sessions on bank CRA obligations and bank participation in community financing programs. Such assistance includes providing OCC speakers and informational materials, and advice on bank programs and speakers which could be featured. Among the organizations assisted in 1987 and 1988 were the National Council for Urban Economic Development, the National League of Cities, the Southern Growth Policies Board, the Black Business Investment Board of Florida, the National Center for Policy Alternatives, National Peoples Action, ACORN, and the Consumer Federation of America

OCC Conferences and Publications

In addition, the OCC sponsors a number of conferences and roundtables for bankers on CRA-related issues and community lending opportunities. One of the primary purposes of these meetings is to develop and provide information to national banks about the successful approaches banks have used in meeting community credit needs. In each case, a publication based on proceedings of the meeting is developed and provided by the OCC to national banks. Over the last few years these meetings and publications have included:

Issues and Bank Initiatives in Low- and Moderate-Income Housing and Fair Lending. This major conference, held on June 15, 1989, brought together over 200 bankers, bank trade association and regulatory agency participants to discuss key issues banks face and model bank programs used to address low- and moderate-income housing credit needs. Comptroller Clarke was the keynote speaker. A publication based on the proceedings is now being developed and will be distributed to all national banks later this year

Community Development Finance: Tools and Techniques for National Banks. This publication, developed by OCC staff, describes a variety of financing techniques and organizational models used by financial institutions to help meet important community credit needs in such areas as lower income housing, small and minority business development and neighborhood revitalization. The publication was sent to all national banks and OCC offices in March 1989. As of July 1, 1989, over 1,000 additional copies have been distributed in response to requests from banks and others

Bank Financing of Community Business Development. This roundtable, held in June 1988, addressed effective strategies for serving small businesses, particularly those owned and operated by minorities and women and those located in economically distressed areas. The roundtable brought together bankers and small business groups to discuss key financing issues faced by small businesses and strategies banks can use to address them. A publication based on the roundtable proceedings was sent to all national banks

Opportunities and Issues for Banks in Affordable Housing was a roundtable sponsored by the OCC in December 1986. The purposes of the Roundtable were to

(1) heighten the awareness of bankers regarding opportunities for investment in affordable housing programs and (2) to highlight several effective financing programs offered by banks or through partnerships in which banks participate. The roundtable attracted more than 100 participants, the great majority of whom were bankers. Three panels addressed innovative approaches for bankers, public and other private sector leaders to work together to provide housing for low- and moderate-income people. A publication summarizing the proceedings was sent to about 2,000 national banks and almost 1,000 additional requests for the publication have been filled to date.

The Changing Shape of Retail Banking: Responding to Customer Needs was a major national conference sponsored by the OCC in June 1985. Over 220 people attended, including bankers, community, customer and small business leaders and bank trade association representatives. The goal of the meeting was to help participants adapt to change and understand the evolving role of the bank customer. It was also meant to assist the OCC in understanding the concerns and needs of the industry and customer groups. A conference publication was made available to customer group and banking organizations, and was sent to approximately 1,500 national banks.

Small Business Lending and Private Secondary Markets. This roundtable, cosponsored with the National Federation of Independent Business (NFIB) in April 1984, highlighted innovative bank programs to make available long-term fixed-rate financing to smaller businesses. The purpose of the program was to educate bankers and leaders in the public and private sectors about opportunities and new approaches in small business finance and to encourage them to work together to implement creative long-term financing programs. It addressed new developments in the lending field with banks serving both as loan originators, and as sellers of loans to other investors with long-term investment horizons, such as pension funds. Approximately 50 leaders from the banking, small business and governmental sectors participated in the meeting. A publication based on the roundtable was produced by NFIB and was provided to 2,000 national banks.

OCC's Community Development Corporation Program for National Banks

Bank community development corporations and community development investments can be a useful tool in helping banks meet community credit needs. The Office of the Comptroller of the Currency administers and [illegible] the Community Development Corporation [illegible] which allows national banks to make direct equity and other investments in community development corporations (CDCs), business ventures or community development projects serving predominantly civic, community or public purposes.

Through July 1, 1989, over 65 national bank CDCs and community development project investments have been approved by the OCC. Currently, there are 35 active CDCs and projects in which over 130 banks have made investments under the OCC's program. A number of CDCs have multiple bank investors.

National bank CDCs and community development investments have focused on low- and moderate-income housing development and rehabilitation, downtown and neighborhood commercial revitalization, industrial development and redevelopment, small and minority business assistance, neighborhood marketing, and training, technical assistance, research and planning for nonprofit development groups.

The OCC has initiated a number of activities designed to inform national banks about community development corporations and investments. Recent CDC activities by the OCC have included the following.

- *Banking Circular 185.* The Office issued Banking Circular 185, "Community Development Corporations," in 1984. The Circular describes the OCC's policies, procedures and guidelines for national banks wishing to organize or invest in CDCs, or invest in community development projects.

- *CDC Information Package.* This package, entitled "Community Development Corporation Program for National Banks," was designed to provide national banks (and others) with important information on OCC's policies and procedures governing bank community development investments, and to encourage banks to consider such investments as part of their overall program to help meet community credit needs. The package included five separate pieces of information, each also used to help the OCC respond to specific requests for information. These information pieces included:

  - CDC Brochure: "National Bank Community Development Corporations and Community Development Investments"

  - "Community Development Corporation Program Questions and Answers"

  - "National Bank Community Development Corporations Directory"

– "National Bank Community Development Corporations: Background Information"

– Banking Circular 185: Community Development Corporations.

Distributed initially in March 1987, the package has been used extensively by the OCC to respond to a growing number of bank requests for information about CDCs and community development investment options. In addition, upon request, the package, or individual pieces, were provided to customer groups, federal, state, and local government agencies, and a variety of bank and customer group trade associations for use of their conferences and other programs. To date, over 4,000 packages have been distributed to banks, customer groups and other interested parties.

- *Financial Institutions' Community Development Corporations Forum, August 13, 1987 in Washington, D.C.* To promote community development corporations, the OCC, together with the Board of Governors of the Federal Reserve System, convened this forum to provide information about bank CDCs and community development investments. The forum was attended by over 200 individuals, including current Community Development Corporation (CDC) officials, bank and bank holding company representatives and others interested in establishing bank CDCs. The forum included information on how to form a CDC and highlighted new and innovative housing and small business development approaches of current CDCs.

Appendix 2

Community Reinvestment Act

Twelve Assessment Factors	*Examination Procedures*
1) Bank activities that ascertain the credit needs of its local community.	Obtain information from a review of bank records and interviews with bank staff (Studies/customers/neighborhood groups/local government).
2) The extent of the bank's marketing and special credit-related programs to make community members aware of credit services available.	Review bank's marketing program (RE brokers/mtg counseling programs/advertising/convenient hours/brochures).
3) The extent of participation by the bank's board of directors in formulating CRA policies and in the bank's CRA performance.	Review minutes of board of directors meetings and any other bank documentation available (Bank staff awareness of CRA).
4) Any practices intended to discourage applications for credit listed in the bank's CRA statement	Review other fair lending examination programs (ECOA and Fair Housing Act) (Bank staff awareness of CRA/prescreening).
5) The geographic distribution of the bank's credit extensions, credit applications and credit denials.	Initially rely on discussion with other examiners, review of examination reports and working papers of other programs. Review bank files and interview bank management. Additional reliance may be placed on geocoding.
6) Evidence of discriminatory or other illegal credit practices.	Review prior reports of examination and other examination programs currently being performed.
7) The bank's record of opening and closing offices and providing services at offices.	Obtain information from the field or district office or from the bank's records. Review any public comments.
8) Bank participation in local community development and redevelopment projects or programs.	Review written lending policy and procedure manuals. Interview lending officers (HUD's community development block grant program/local neighborhood preservation efforts/CDCs/neighborhood housing services).
9) The bank's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated within its community	Review bank financial statements, HMDA disclosures, lending policy and procedure manuals. Interview bank staff.
10) Bank participation in governmentally insured, guaranteed, or subsidized loan programs for housing, small businesses or small farms.	Review bank financial statements, HMDA disclosures, lending policy and procedure manuals. Interview bank staff (FHA/VA/FmHA mortgage loans/SBA loans/FHA Title I home improvement loans)
11) The bank's ability to meet community credit needs based on its financial condition and size, legal impediments, local economic conditions, and other factors	Review examination workpapers and reports. Consider safety and soundness (Small banks may lack resources).
12) Other factors that bear upon the extent to which a national bank is helping to meet the credit needs of its entire community	Consider factors such as bank purchases of state and municipal bonds, secondary mortgage market securities or whether the bank's policies promote efforts to assist existing residents in neighborhoods undergoing reinvestment and change

Appendix 3

Uniform Interagency CRA Rating System

Composite Rating System

The performance categories are individually assigned a numeric rating. In assigning the overall composite CRA rating, the performance categories will be evaluated according to how well the institution meets the following descriptive characteristics.

Rating (1)

The institutions in this group have a strong record of meeting community credit needs. Both the board of directors and management take an active part in the process and demonstrate an affirmative commitment to the community. Institutions receiving this rating normally rank high in all performance categories. Such institutions have a commendable record and need no further encouragement.

Rating (2)

Institutions in this group have a satisfactory record of helping to meet community credit needs. Institutions receiving this rating normally are ranked in the satisfactory levels of the performance categories. Such institutions may require some encouragement to help meet community credit needs.

Rating (3)

Institutions in this group have a less than satisfactory record of helping to meet community credit needs. The board of directors and management have not placed strong emphasis on the credit needs of the community. Institutions receiving this rating have mixed rankings surrounding the mid-range levels of the performance categories. Such institutions require encouragement to help meet community credit needs.

Rating (4)

Institutions in this group have an unsatisfactory record of helping to meet community credit needs. The board of directors and management give inadequate consideration to the credit needs of the community. Institutions receiving this rating generally rank below satisfactory in the majority of the performance categories. Such institutions require strong encouragement to help meet community credit needs.

Rating (5)

Institutions in this group have a substantially inadequate record of helping to meet community credit needs. The board of directors and management appear to give little consideration to the credit needs of the community. Institutions receiving this rating generally rank in the lowest levels of the performance categories. Such institutions require the strongest encouragement to help meet community credit needs.

Performance Categories

I. Community Credit Needs and Marketing (Assessment Factors 1, 2, & 3)

Bank is evaluated on its activities in determining the credit needs of its community and marketing its services.

II. Types of Credit Offered and Extended (Assessment Factors 9 & 10)

Bank is evaluated on the types and amounts of credit extended and the degree to which those extensions are helping to meet the community's needs.

III. Geographic Distribution (Assessment Factors 4, 5 & 7)

The geographic distribution of the bank's loans and any practices meant to discourage applications are considered, as well as the impact of the opening or closing of any offices and the services offered at those facilities.

IV. Discrimination or Other Illegal Credit Practices (Assessment Factor 6)

The bank's compliance with anti-discrimination and other credit laws are evaluated. This rating must be the same as the overall compliance rating.

V. Community Development (Assessment Factors 8, 11 & 12)

The bank is evaluated for its participation in community development and or factors relating to meeting local credit needs.

Interpretive Letters — April 15 to June 15, 1989

Interpretive Letters

472 — March 2, 1989

This is in reply to your letter of September 30, 1988, addressed to District Counsel Gary Pannell of the Southeastern District. Your letter was forwarded to me for response.

You have asked for a ruling that national banks may legally perform certain referral and clerical services in connection with the proposed sale of homeowners' insurance to bank mortgage loan customers by the member companies of the * * * (the Insurer). In my opinion the proposed activities, described below, are incidental to banking under 12 U.S.C. § 24 (Seventh), and are therefore permissible for national banks.

The Proposal

Lenders typically require that customers seeking residential real estate mortgage loans provide homeowners' insurance protecting the lender from various property and casualty risks, but obtaining insurance can cause delays in the closing of loans. One of the principal objectives of your program would be to reduce such delays, to the benefit of both the lender and the borrower. This would be accomplished through cooperative efforts of the lender and the Insurer.

During interviews which are a part of the mortgage application process, the lender's loan production officer (LPO) would inform loan applicants that they would have to provide evidence of homeowners' insurance at closing. The LPO would advise the applicant, both orally and in writing, that such insurance could be obtained from an insurer, agent or broker of the applicant's own choice, that the approval of the loan application would not be conditioned upon choosing any particular insurer, agent, or broker, and that the customer would be free to provide or arrange for his or her own insurance coverage. The LPO would ask the applicant if he or she would be interested in having the Insurer give him or her a quote for homeowners' insurance, but would not urge the applicant to contact the Insurer or to obtain insurance from the Insurer, and would not suggest that the loan application would receive favorable consideration if the applicant were to deal with or purchase insurance from the Insurer.

If the customer were to desire a quote from the Insurer, the LPO would give the applicant a copy of the Insurer's homeowners' insurance informational brochure and would secure the applicant's separate signature authorizing the lender to supply to the Insurer information containing in his or her loan application (*e.g.*, location and age of the property, purchase price and amount of loan) and property appraisal. This information would be needed by the Insurer to underwrite and rate a policy for the applicant and to provide a price quotation for the proposed insurance.

After receipt of underwriting/rating information from the lender, the Insurer's telemarketing employees, who would hold valid insurance agents' licenses in the state of residence of the applicant, would attempt to reach the applicant by telephone as soon as possible (normally prior to the date of the lender's lending commitment) to quote a rate and solicit the insurance. If the applicant were to agree to purchase insurance from the Insurer, the Insurer would forward a certificate representing evidence of insurance (Evidence of Insurance) to the applicant and the LPO. By issuing the Evidence of Insurance, the Insurer would have agreed to take the risk of errors and omissions in the information on which it would base its quote, and automatically to issue the policy if the loan were to close, and to send it to the insured.

Upon receipt from the Insurer, the lender would verify the accuracy of the Evidence of Insurance issued by the Insurer, and if necessary, contact the Insurer to make any necessary adjustments. The lender would notify the applicant that it had received the Evidence of Insurance and that the coverage provided satisfied the lender's insurance requirements. The lender would also arrange for the closing officer, who is normally not affiliated with the lender, to transmit to the Insurer the applicant's premium payment for insurance issued by the Insurer for loans which actually closed. If a loan were not to close or other insurance were provided by the applicant, the Evidence of Insurance would not become effective. The lender would so notify the Insurer of these events so that the Insurer could void the Evidence of Insurance and correct its records.

Under the terms of typical mortgage loan documents, homeowner's insurance coverage must remain in force until the loan is repaid. To facilitate this, the Insurer would renew policies of the lender's customers unless instructed not to, but might adjust the premium depending on market and other conditions. To minimize the risk of insurance interruption and mortgage default at the time of each policy renewal, the lender and the Insurer would agree to a cooperative program whereby the lender, before each policy renewal date throughout the life of the loan, would notify the customer either that (i) the insurance coverage provided by the Insurer on a renewal basis complied in all respects with the lender's insurance requirements, or (ii) if it did not, that adjustments would be necessary (with copies to the Insurer).

The lender would also assist and cooperate with the Insurer's "master billing" program in which the Insurer

would send a joint bill to the lender for policy renewals in a given month, thereby eliminating the need for generating and processing separate customer bills. In addition, the lender would agree not to provide the names of their insured to competing insurers, and otherwise not to disturb the relationship between the Insurer and its insured.

The lenders involved in this program and the Insurer would comply with all applicable state and federal insurance or other laws and promulgated regulations, and such a program would be implemented only in states where these types of services and the fees for which they are performed are not deemed to constitute agency activity.

A participating bank would be compensated through fees for the services it would provide to the Insurer in six areas (there would be no separate compensation to any bank employees):

(i) the provision of underwriting/rating data necessary for the Insurer to provide its quotes,

(ii) services provided in connection with handling of Evidences of Insurance before closing,

(iii) services provided in connection with closing and post-closing handling of Evidences of Insurance, including managing the activities of closing officers and notifying the Insurer of Evidences of Insurance which do not become effective,

(iv) the provision of the property appraisals for those loans which actually closed,

(v) review of and advice to customers of, homeowner's insurance compliance or need for adjustment at all renewal dates and maintaining the confidentiality of Insured-Insurer relationships, and

(vi) participation in the "master billing" program for renewal premiums.

Discussion

It is unclear whether status as an insurance agent is to be determined under state or federal law. The Office has traditionally believed that whether a bank is acting as an insurance agent should be determined in accordance with the commonplace view of that function.

> Factors generally examined by the Office in making this determination include whether the bank has an agency agreement with an insurance company, whether the bank receives commissions (to be distinguished from reimbursement of administrative expenses plus a reasonable charge for the bank's services, which are not considered "commissions" by this Office), whether the bank sells a variety of lines of insurance coverage, and whether the bank engages in activities such as general insurance counselling, risk evaluation, investigation of the applicant, assumption of certain underwriting risks, handling of claims and issuance of the certificate of coverage. *See Commissioner of Internal Revenue v. First Security Bank of Utah, N.A.*, 405 U.S. 394 (1972); *First National Bank of La Marque v. Smith*, 436 F. Supp. 824 (S.D. Tex. 1977), *modified on other grounds*, 610 F.2d 1258 (5th Cir. 1980). . . . (Letter of Legal Advisory Services Division Assistant Director Peter Liebesman, April 18, 1984 (unpublished).)

Based on the description contained in your letter, your program will not involve the types of activities outlined above. Rather, the role of banks participating in your program will be limited to referring customers to you and providing certain clerical support.

It is the Office's view that a bank is not acting as an insurance agent if its loan customers fill out quote authorization forms for homeowners' and auto insurance, and the bank then forwards them to an independent insurance agency for processing. Letter of Legal Advisory Services Division Assistant Director William B. Glidden, May 8, 1986 (unpublished). In that letter, the bank was to be compensated only if a customer actually purchased insurance. Your plan is more narrowly tailored, since payment for bank's services would be unrelated to the placement of insurance coverage. Instead, it would be based on the number of times each service is rendered.

In any case, you advise that your program will be offered only in states where a bank's participation will not be deemed to constitute insurance agency activities. Therefore, any potential conflict with state law will be avoided.

In my opinion, for federal banking law purposes, the national bank activities outlined in your program are not those of an insurance agent, but fall instead under the rubric of acting as a finder.

> A national bank, pursuant to request, may act as "finder" in bringing together a buyer and seller, where the bank's activity is limited to the introduction and it takes no further part in the negotiations. For this service the bank may accept a fee. (Interpretive Ruling 7.7200, 12 C.F.R. § 7.7200.)

This role has long been authorized for national banks, in a variety of contexts. In approving a plan in which a national bank would provide insurance information to its correspondent banks, Central District Counsel James M. Kane stated: "Our Office has historically permitted national banks to make inquiries as to interest, arrange a meeting of the interested parties, and provide information pertinent to the meeting of the buyer and seller." Letter of October 24, 1985 (unpublished).

More recently, the Office has approved such "finding" activities as assisting customers in placing orders for tickets with a travel agency, and referring customers to a tax audit representation service. Letter of Chief Counsel Paul Allan Schott, May 9, 1988 (unpublished); Interpretive Letter No. 437, July 27, 1988, *reprinted in*]Current[Fed. Banking L. Rep. (CCH) ¶ 85,661. The latter, in particular, is similar to your proposal in that the bank would identify customers interested in the service, forward a customer's completed application and fee to the tax service, and make promotional materials available.

To summarize, I believe that under your plan national banks would not be acting as insurance agents but rather as finders, an activity which is incidental to banking under 12 U.S.C. § 24 (Seventh). Any such plan must make it clear to loan customers that they are not required to obtain insurance as a condition of receiving a loan, *see* 12 U.S.C. § 1972(1). As described in your letter, your plan appears to satisfy this requirement.

I hope that this has been responsive to your inquiry. If you have further questions, please feel free to contact me at (202) 447-1880.

Christopher C. Manthey
Senior Attorney
Legal Advisory Services Division

* * *

473—January 13, 1989

This will confirm receipt of your letter dated July 15, 1988 wherein you requested a clarification of the transfer agent recordkeeping requirements set forth at Rule 17Ad-6 of the Securities Exchange Act of 1934 (Exchange Act), 17 C.F.R. § 240.17Ad-6. Specifically, you inquired whether the transfer agent rules require the maintenance of duplicate manual records of the amount of debt securities, authorized and outstanding for each issue, when a transfer agent has established and is maintaining an automated recordkeeping system for that same information.

Pursuant to section 3(a)(34)(B) of the Exchange Act, 15 U.S.C. § 78c(a)(34)(B), the OCC is the appropriate regulatory agency for national banks engaged in transfer agent activities and, therefore, the OCC has primary responsibility for examining those entities and enforcing compliance with applicable law. *See* 15 U.S.C. §§ 78q(b) and 78q-1(d)(3)(A)(ii). The OCC has the authority to prescribe rules to regulate the activities of banks performing transfer agent functions as necessary or appropriate for the safeguarding of securities and funds. *See* 15 U.S.C. § 78q-1(d)(1)(B). In Trust Banking Circular No. 8 (July 18, 1977), the OCC determined to adopt and enforce the SEC's rules, currently found at Rules 17Ad-1 to 17Ad-14, with respect to bank transfer agents.

The recordkeeping requirements for transfer agents are set forth at Rule 17Ad-6. These requirements are designed to better enable transfer agents to monitor their own activities and to permit regulatory authorities to monitor transfer agent compliance. *See* SEC Release No. 34-13636 (June 24, 1977). In your letter, you focused upon the requirements of Rule 17Ad-6(b), which provide:

> [e]very registered transfer agent which, under the terms of its agency, maintains security holder records for an issue or which acts as a registrar for an issue shall, with respect to such issue, obtain from the issuer or its transfer agent and retain documentation setting forth the total number of shares or principal amount of debt securities or total number of units if relating to any other kind of security authorized and the total issued and outstanding pursuant to issuer authorization.

This subsection requires the registered transfer agent to obtain and retain documentation to substantiate entries in the control book.[1] Neither Rule 17Ad-6(b) nor the other recordkeeping rules mandate a specific type of recordkeeping and record retention system. Rather, each registered transfer agent may adopt a recordkeeping and record retention system suitable to its own operations, provided the records and documentation maintained therein contain the requisite information. *See* Trust Banking Circular No. 8, Supplement 1 (October 23, 1980), incorporating SEC Release 34-17111 (September 2, 1980).

There is no express requirement in Rule 17Ad-6 that manual records of all required documents be maintained by the transfer agent. Rule 17Ad-7(f) provides

[1]SEC rules require the recordkeeping transfer agent to maintain a control book showing the total number of shares or the principal dollar amount of debt securities, both authorized and issued. *See* Rules 17Ad 9(d) and 17Ad 10(e).

generally that records required to be maintained under Rule 17Ad-6 may be reproduced and preserved on microfilm. The SEC has stated specifically that microfilm substitution of manual records satisfies the documentation retention requirement of Rule 17Ad-6(c).[2] *See* SEC Release 34-17111, question 103. In light of the permissibility of microfilm substitution provided in Rule 17Ad-7(f) and as conditioned below, we find that the requirements of Rule 17Ad-6(b) are satisfied when an automated record retrieval system is employed. Accordingly, bank transfer agents may utilize an automated recordkeeping and record maintenance system in satisfaction of the requirements of Rule 17Ad-6(b), provided such system can maintain and reproduce all information required under that regulation. In order to ensure that the OCC has access to records as necessary or appropriate to discharge its regulatory responsibilities, however, transfer agents must have the required documentation of information readily available for examination. Additionally, the recordkeeping and record retention system must be capable of producing a hard copy replicating the documentation provided currently in the bank's manual records.

I hope this has been responsive to your inquiry. If you have any questions, please call the undersigned at 202-447-1954.

Keven J. Bailey
Attorney
Securities & Corporate Practices Division

* * *

474—March 15, 1989

This is in response to your letter dated January 26, 1989, regarding the applicability of the Fair Credit Reporting Act (FCRA), 15 U.S.C. § 1681 *et. seq.*, to the proposal described below.

* * * (BHC) through its subsidiary banks and affiliate nonbanks (hereinafter referred to as subsidiary or subsidiaries) offers a variety of services and products to its customers. Currently, a customer seeking the subsidiaries' financial services and products has to fill out a separate application for each one. The BHC seeks to make these services and products available to its customers in a more efficient manner by permitting customers to provide information on a single application that, at their written request, would be forwarded to the designated subsidiaries.[1] There would be no fee for this service and the application would be forwarded simply by photocopying it and transmitting the photocopied application to the designated subsidiaries. The information forwarded would not be interpreted, summarized, assembled, or evaluated in any way.

The FCRA concerns, among other things, the reporting of consumer reports by consumer reporting agencies. A "consumer report" is defined as:

> (d) . . . any written, oral, or other communication of any information by a consumer reporting agency bearing on a consumer's credit worthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living which is used or expected to be used or collected in whole or in part for the purpose of serving as a factor in establishing the consumer's eligibility for (1) credit or insurance to be used primarily for personal, family, or household purposes, or (2) employment purposes, or (3) other purposes authorized under section 1681b of this title. . . . (15 U.S.C. § 1681a(d). (Emphasis added.))

A "consumer reporting agency" is defined as:

> any person which, for monetary fees, dues, or on a cooperative nonprofit basis, regularly engages in whole or in part in the practice of assembling or evaluating consumer credit information or other information on consumers for the purpose of furnishing consumer reports to third parties, and which uses any means or facility of interstate commerce for the purpose of preparing or furnishing consumer reports. (15 U.S.C. § 1681a(f). (Emphasis added.))

The definition of a "consumer reporting agency" contains four elements: (1) transmission for a fee or on a cooperative nonprofit basis; (2) regularly engaged in the practice of assembling or evaluating credit information; (3) for the purpose of furnishing consumer reports to third parties; and (4) through interstate commerce. If one of these elements is absent from the transaction, the transmitter falls outside the definition and, thus, is not a consumer reporting agency. *See, e.g., Porter v. Talbot Perkins Children's Services*, 355 F.Supp. 174, 176-77 (S.D.N.Y. 1973).

You have represented that the subsidiaries will not be assembling or evaluating a customer's credit information before it is transmitted to the affiliated subsidiary. The concept of assembling or evaluating consumer credit information implies a function which involves

[2] [illegible] that the transfer agent retain cancelled [illegible] security holder records.

[1] However, a customer would not be prohibited from filling out an application form for each of the BHC's subsidiaries instead of completing a single form for all or some of the subsidiaries.

more than the receipt and retransmission of information. *See, e.g., D'Angelo v. Wilmington Medical Center, Inc.*, 515 F.Supp. 1250, 1253 (D.De. 1981). Accordingly, it appears that the subsidiaries would not be consumer reporting agencies under the FCRA.[2]

Further, it appears that the FCRA should not apply to a situation where a consumer specifically requests that a credit application be transmitted to another entity. The Congressional purpose in enacting the FCRA was to provide a means for the accurate, efficient, and fair reporting of credit information while insuring impartiality and a respect for the consumer's right to privacy. *See*, 12 U.S.C. § 1681. The FCRA was designed to "protect consumers from inaccurate or arbitrary information in a consumer report which is being used as a factor in determining an individual's eligibility for credit, insurance, or employment." 116 Cong. Rec. 36572 (1970).

The evils that the FCRA was designed to prevent do not exist where information is directly provided by the consumer to the subsidiary and at his/her written request the information, without assembly or evaluation, is transmitted to an affiliated entity. In that case, the consumer is assured that the information is accurate and fair because he/she directly provided it. Also, because the information has not been assembled or evaluated by the subsidiary, the consumer is assured that the application will be impartial. Finally, because the consumer specifically requested in writing that the application be transmitted to other subsidiaries, the consumer is assured of his/her right of privacy. Accordingly, it appears that the FCRA does not apply in this instant case.

Moreover, in cases where a customer's application form is transmitted to another subsidiary for the same type of credit, the Federal Trade Commission's (FTC) proposed commentary to the FCRA recognizes that the parties to the information would be "joint users" and, thus, not credit reporting agencies. In this regard, the commentary states:

> 8. Joint Users of Consumer(s) Reports
>
> Entities that share consumer reports with others that are jointly involved in decisions for which there are permissible purposes to obtain the reports may be "joint users" rather than consumer reporting agencies. For example, if a lender forwards consumer reports . . . to another creditor for use in considering a consumer's loan application at the consumer's request, the lender does not become a consumer reporting agency by virtue of such action. . . (53 Fed. Reg. 29696, 29703 (Aug. 8, 1988). (Emphasis added.))

Accordingly, where the application is transmitted at the request of the consumer, the subsidiaries would not be considered consumer reporting agencies under the FCRA.

I trust this has been responsive to your inquiry.

Peter Liebesman
Assistant Director
Legal Advisory Services Division

* * *

475—March 22, 1989

This letter responds to your request of March 1, 1989, for an opinion by this Office on whether a national bank can offer variable-rate annuity contracts (variable annuities) for sale, solely as an agent, in Tennessee. Based on your March 1st letter and subsequent conversations, I understand that your client is a national bank subsidiary of a bank holding company (as defined under 12 U.S.C. §§ 1841-46), and in the past has sold variable annuities as an agent through an operating subsidiary. Several employees of this operating subsidiary were licensed as insurance agents by Tennessee during these operations. Recently these annuity operations were transferred from the operating subsidiary to the national bank. (Up to this point your client's annuity operations have apparently been overlooked by the Tennessee authorities.)

The Tennessee Insurance Law states that "[n]o person shall act as, or hold himself out to be, an insurance agent . . . unless duly authorized." Tenn. Code Ann. § 56-6-133 (1988 Supp.). Where a corporation employs individuals as insurance agents, "all . . . officers, directors, stockholders and employees who shall act as insurance agents shall be licensed in lieu of the . . . corporation, and no license shall be issued to or in the name of the . . . corporation." *Id.* § 56-6-132(1). Without a state license it is unlawful to receive commissions for the sale of insurance in Tennessee. *Id.* § 56-6-149. The Tennessee Insurance Commissioner is authorized to make investigations into violations of the law, *id.* § 56-6-159, and penalties for violations are denial, loss, or non-renewal of license, and/or a civil monetary penalty ranging from one hundred to one thousand dollars. *Id.* § 56-6-152.

Tennessee law appears to reach the sale of variable annuities by prohibiting an insurance agent licensed

[2] However, you should note that if a customer's application were to be evaluated prior to its transmission to an affiliated subsidiary, then the transmitting subsidiary would be considered a "consumer reporting agency" under the FCRA.

under the Tennessee Insurance Law and employed by a bank subsidiary of a bank holding company from negotiating any insurance policy other than credit life, credit accident and health insurance, and various forms of motor vehicle comprehensive damage policies. *Id.* § 56-6-201. For purposes of the licensing requirement, the Tennessee law defines insurance to include annuities[1] and thus purportedly bans the sale of variable annuities by national banks. *Id.* § 56-6-131.

Given the Tennessee Insurance Law, two questions are presented: (1) are national bank employees required to obtain a state license for the sale of variable annuities when the state insurance law requires such a license for all individuals engaged in this activity? and (2) assuming that the licensing requirement does hold, does a state prohibition against licensees selling variable annuities apply to licensed employees of national banks?

As you note, the Comptroller of the Currency considers the sale of variable annuities by a national bank, as an agent, to be authorized under 12 U.S.C. § 24(Seventh). *See* Intrepretive Letter No. 331, *reprinted in* [1985-1987 Transfer Binder] Feb. Banking L. Rep. (CCH) ¶ 85,501 (Apr. 4, 1985); Interpretive Letter No. 415, reprinted in [1988-1989 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,639 (Feb. 12, 1988); Interpretive Letter No. 428, *reprinted in* [1988-1989 Transfer Binder] Feb. Banking L. Rep. (CCH) ¶ 85,652 (May 11, 1988). As you have also noted, it has been this Office's longstanding position that state laws which limit the authorized powers of national banks are preempted under the authority of the Supremacy Clause (article VI, clause 2) of the United States Constitution. *See* Letter from John E. Shockey, Acting Chief Counsel, Office of the Comptroller of the Currency (July 14, 1976). Consistent with these positions, I believe that the Tennessee Insurance Law cannot be enforced to require the licensing of national bank employees or prohibit the sale of variable annuities by national banks.

The general rule regarding preemption of state law in the banking field is that state law applies to national banks unless it conflicts with federal law, unduly burdens the operations of national banks, or interferes with the objectives of the national banking system.[2] *See Davis v. Elmira Sav. Bank*, 161 U.S. 275, 283 (1896); *see also Franklin Nat'l Bank v. New York*, 347 U.S. 373, 378-79 (1954); *Easton v. Iowa*, 188 U.S. 220, 238 (1903); *National St. Bank v. Long*, 630 F.2d 981, 985-86 (3rd Cir. 1980). In applying this rule to state licensing requirements, we have stated "[a] license is in the nature of a special privilege, entitling the licensee to do something that he would not otherwise be entitled to do without the license." Intrepretive Letter No. 122, *reprinted in* [1981-1982 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,203, at 77,304 (Aug. 1, 1979). Using this logic, this Office has opined that a Tennessee law requiring licenses for national banks acting as "municipal finance consultants" in Tennessee, directly conflicted with a bank's authority to engage in activity incidental to the municipal/governmental securities powers of section 24(Seventh), and was thus preempted by the express powers of the National Bank Act. *Id.* A smiliar requirement in Missouri law—that banks acting as brokers in Missouri register with the state—was deemed preempted on identical grounds as recently as 1986. Letter from James F.E. Gillespie, Jr., Senior Attorney, Office of the Comptroller of the Currency (Aug. 11, 1986). In short, the power to license is the power to prohibit, and a state licensing requirement is thus preempted under the Supremacy Clause. *See McCulloch v. Maryland*, 17 U.S. (4 Wheat.) 316, 327 (1819) (the power to tax is the power to destroy).

In light of these precedents, the Tennessee Insurance Law is preempted because it attempts to license national bank activities through the licensing of national bank employees. The fact that the Tennessee law is aimed at all individuals acting as insurance agents in the state does not distinguish it from these other preempted laws. Regardless of the form or subject of a

[1]I assume that variable annuities are covered by the Tennessee Insurance Law, but note that the statute's language is unclear. "[A]ll [illegible] insurance [illegible] include annuities, *unless the context* [illegible]" Tenn. Code Ann. § 56-6-131 (emphasis added). [illegible] whether the context requires another interpretation [illegible] state law, and you may wish to consult [illegible] Tennessee Attorney General on this issue.

[2]The general rule is not affected in this case by the McCarren-Ferguson Act, 15 U.S.C. §§ 1011-15. McCarren-Ferguson modifies the preemption rule in the insurance field so that no federal law can preempt a state law regulating the "business of insurance," unless the federal law "*specifically relates to the business of insurance.*" 15 U.S.C. § 1012(b) (emphasis added). The Supreme Court has held that variable annuities are essentially securities and thus are not to be treated as insurance for the purposes of McCarren-Ferguson. *S.E.C. v. Variable Annuity Co.*, 359 U.S. 65 (1958). Since the issue of whether variable annuities are securities or insurance under McCarren-Ferguson is a federal question, *id.* at 69, Tennessee law cannot regulate variable annuities by defining them as insurance. "A banking transaction by a National Bank does not become the business of insurance subject to the provisions of [McCarren-Ferguson] merely because a state official or legislature defines the business of insurance so broadly as to encompass banking transactions as well as the wide variety of insurance which they purport to regulate." Letter from James J. Saxon, Comptroller of the Currency, to the Presidents of All National Banks (July 21, 1964).

regulatory scheme, a state "cannot demand that a national bank <u>or its employees</u> be licensed to conduct . . . activities allowed by . . . 12 U.S.C. 24(7)." Letter from H.J. Selby, First Deputy Comptroller for Operations 3 (June 30, 1976) (emphasis added) (Montana insurance licensing law cannot limit national bank credit insurance powers under 12 U.S.C. §§ 24(Seventh) & 92). *See also* Letter from J. Gillespie, Jr., *supra*, at 1. While many state laws properly regulate the general business activities of national banks, *e.g., McClellan v. Chipman*, 164 U.S. 347 (1896), state law must not intrude directly on the authorized banking activities of a national bank through the qualification of bank employees. *See Allen v. Carter*, 119 Pa. 192, 13 A. 70 (1888) (striking down a state law regulating activities of bank cashiers as applied to national banks because such state qualification of national bank power would undermine the national banking system). Ultimately it is the effect, and not just the form, of state regulation which must be scrutinized under the Supremacy Clause.

The Tennessee licensing scheme is also preempted to the extent "it authorizes state officials to exercise visitorial powers over a national bank." Letter from J. Gillespie, Jr., *supra*, at 2. Section 484 vests exclusive power of visitation in the Comptroller of the Currency. 12 C.F.R. § 7.6025 (1988). The OCC has ruled that state officials "have no authority to conduct examinations or to inspect or require the production of books or records of national banks, except for the limited purpose of ensuring compliance with applicable State unclaimed property and escheat laws." *Id.* Thus, insofar as the Tennessee statute allows the Tennessee Insurance Commissioner to investigate violations of the Tennessee Insurance Law by "visiting" a national bank, *see* Tenn. Code Ann. § 56-6-159, it is also preempted.[3]

Finally, even if a court did find the Tennessee licensing requirement applicable to national bank employees, the Supremacy Clause and section 24(Seventh) would still preempt the Tennessee Insurance Law to the extent it prohibits national banks from "negotiating" variable annuities under section 56-6-201 of the Tennessee Code. A prohibition of a national bank's valid securities activities through its employees is a basic conflict with section 24(Seventh), which explicitly grants national banks the power to sell securities as agents. *See Allen*, 13 A. at 71-72.

[3]The Comptroller of the Currency also has exclusive power under 12 U.S.C. § 1818(b)(1) to enforce "any law," including state law, which is directly related to federal banking powers. *See Nat'l State Bank*, 730 F. 2d at 988. Thus, even if the Tennessee licensing provisions were applicable to national banks, the enforcement of the statute would be left to the Comptroller of the Currency and not the State's Attorney General.

Like all corporate entities, national banks cannot operate but through their employees. To the extent the arguments stated above might not persuade a court — if, for example, the power to license employees were not considered equal to the power to prohibit a bank's activities—they would certainly succeed when directed at the blanket prohibition. Indeed, the Tennessee Attorney General has conceded that a Tennessee law prohibiting national banks from exercising authorized powers under section 24(Seventh), was preempted by the National Bank Act and the Constitution. *See* Office of the Attorney General of Tennessee, Opinion of the Attorney General 87-33, slip op. at 4-5 (Mar. 6, 1987) (LEXIS, Tenn library, AG file).

I trust that this letter adequately responds to your inquiry. Please feel free to contact me should any further questions arise regarding your client's situation.

William B. Glidden
Assistant Director
Legal Advisory Services Division

* * *

476—March 20, 1989

This responds to your February 21, 1989, letter requesting an opinion on whether a federal branch of a foreign bank may form an operating subsidiary. The answer to your question is that, because a federal branch is not a corporate entity, it cannot itself own another corporation, and therefore cannot form an operating subsidiary.

Section 4 of the International Banking Act of 1978 (the IBA), Pub. L. No. 95-369, 92 Stat. 610, provides,

> Except as otherwise specifically provided in this chapter or in rules, regulations, or orders adopted by the Comptroller under this section, operations of a foreign bank at a Federal branch or agency shall be conducted with the same rights and privileges as a national bank at the same location and shall be subject to all the same duties, restrictions, penalties, liabilities, conditions, limitations that would apply under the National Bank Act to a national bank doing business at the same location. (12 U.S.C. § 3102(b); 12 C.F.R. § 28.4.)

The Senate Report on the IBA stated the purposes of this provision:

> The general policy of the United States with regard to foreign enterprises doing business in the United States has been one of national treatment. Under this policy foreign enterprises operating in

> the host country are treated as competitive equals with their domestic counterparts. There is, at the same time, no uniform national policy concerning foreign banking operations in the country. As a result, foreign banks enjoy many competitive advantages over domestic banks. This bill establishes the principle of parity of treatment between foreign and domestic banks in like circumstances.

S. Rep. No. 1073, 95th Cong., 2d Sess. 2 (1978). *See Conference of State Bank Supervisors v. Conover*, 715 F.2d 604, 615 (D.C. Cir. 1983) ("We find the legislative history [of the IBA] replete with references to Congress' intent to accord foreign banks national treatment.").

In accordance with the expressed intent underlying the IBA, the OCC's policy statement on the applicability of the national banking laws to federal branches states that "Federal branches and agencies can engage in the same type of business and exercise the same powers as a national bank, subject to the conditions and requirements contained in the statutes and any implementing rules and regulations promulgated by the federal banking authorities." 12 C.F.R. § 28.101, ¶ 3.

In some cases, however, it is necessary to distinguish federal branches from national banks. Unlike a national bank, a federal branch is not a corporate entity apart from the foreign bank, and Congress took into account the special nature of federal branches in enacting the IBA. The Senate Report stated that "[b]ecause Federal branches and agencies are offices of foreign banks and not separately incorporated entities, [section 4] contains several provisions that conform regulation to this legal and operational realtiy." Senate Report, at 7. For example, limitations based on the capital stock or surplus of a national bank are deemed to refer, as applied to a federal branch, to the capital stock or surplus of a foreign bank. 12 U.S.C. § 3102(b); 12 C.F.R. § 28.5.

Another consequence of the difference in corporate structure between a federal branch and a national bank is that a federal branch cannot have an operating subsidiary. An operating subsidiary of a federal branch would be a corporation of which the branch owned at least 80 percent of the voting stock. 12 C.F.R. § 5.34. Since a federal branch is not a separate corporate entity from the parent bank, the parent would be the owner of the stock of the operating subsidiary.

I trust that this reponds to your inquiry.

William B. Glidden
Assistant Director
Legal Advisory Services Division

* * *

477—January 11, 1989

This confirms our numerous telephone conversations following my receipt of your letter of December 2, 1988. The issues we discussed were, first, whether the renewal of a standby letter of credit is an extension of credit for lending limit purposes; and, second, whether the renewal of an "evergreen" standby letter of credit is an extension of credit for lending limit purposes.

See, 12 U.S.C.A. § 84 (Supp. 1988), 53 F. Reg. 23,752 (June 24, 1988); and 12 C.F.R. § 32.2(e)(1988). Generally, standby letters of credit (SLOC's) are extensions of credit for lending limit purposes at the time they are issued. The typical SLOC will be effective for a stated period (e.g., 1 year). At the end of that period, the bank's risk on the credit is extinguished. If the account part requests that the SLOC be "renewed," a new SLOC must be created, reinstating the bank's risk and thereby accomplishing an extension of credit for lending limit purposes. Of course, if the bank declines to "renew" the SLOC, its risk ends at the end of the commitment period. Thus, the answer to the first issue is that the "renewal" of an SLOC is an extension of credit for lending limit purposes as of the date of the new commitment.

The typical "evergreen" SLOC differs from the SLOC described above in that it contains a provision requiring the bank to inform the account party in advance of the end of the commitment period as to whether it will renew the SLOC. If the bank decides not to renew, the beneficiary then has the right, upon proper presentment, to draw on the SLOC. In some cases if the bank decides not to renew, the commitment requires that the SLOC be funded automatically. As you can see, in the case of an evergreen SLOC, the bank's risk on the credit appears to be increased, or at least not reduced, by a decision not to renew. Consequently, a risk analysis supports the position that no new extension of credit should be deemed to occur when an evergreen SLOC is renewed in accordance with the terms of the initial agreement. The Office of the Comptroller of the Currency (OCC) has tentatively adopted this position. Thus, the renewal of an evergreen SLOC in accordance with the terms of the initial written commitment will not be construed as an extension of credit for lending limit purposes.

One additional note: while it is true that the OCC has determined that there is no legal impediment to a national bank's creation and use of evergreen SLOC's, there may be safety and soundness considerations involving particular institutions which militate against free use of this instrument. Thus, individual institutions should proceed with caution regarding their use of evergreen SLOC's.

If you should have any additional questions about this issue, please do not hesitate to let me know.

Elizabeth H. Corey
Attorney

* * *

478—Interpretive Letter 472 was reissued as 478 in error.

479—March 22, 1989

This responds to your letter of October 24, 1988, to Deputy Comptroller Peter C. Kraft regarding the proper treatment of sales of Other Real Estate Owned (OREO) by a national bank. Mr. Kraft has asked me to respond to your letter in his behalf.

Specifically, you asked, (1) whether, if a national bank sells OREO in a covered transaction, the bank must continue to obtain annual appraisals on the property while the transaction remains covered; and (2) whether, if such an appraisal is required and shows a reduction in value, the national bank must write down the value of the asset on its books. For the reasons discussed below I conclude that when a national bank sells OREO in a covered transaction, the bank must continue to obtain annual appraisals on the property while the transaction remains covered, but if the appraisal shows a value lower than the book value, no write down need be made.

In your letter you argued that annual appraisals should not be required for OREO sold by a national bank in a covered transaction, and you enclosed correspondence from the Federal Reserve Bank of Kansas City and from the Oklahoma State Banking Department commenting on the above-stated issues. Examining Officer Stephen E. McBribe of the Federal Reserve Bank of Kansas City declined on jurisdictional grounds to give an opinion on these issues, but rather, referred you to the Comptroller of the Currency's interpretive ruling on OREO at 12 C.F.R. § 7.3025. General Counsel Mary Beth Guard of the Oklahoma State Banking Department opined that requiring annual appraisals for OREO properties sold in covered transactions "is overly restrictive and does not serve the purpose intended for 'covered transactions.'" However, Ms. Guard was specifically referring to covered transactions which would be listed as OREO in a state bank's Consolidated Report of Condition and Income (Call Report) authorized by 12 U.S.C. § 161. Also, Ms. Guard noted that a state bank examiner was free to request a current appraisal on any collateral held by a state bank in order to review a credit line. In addition, she noted that while an asset should not be written down based solely on a lower-than-book-value appraisal, an asset which is in a default status and on which the likelihood of foreclosure appears to be present once again, may properly be written down.

While this correspondence is interesting and informative, it is not dispositive on the above issues as they apply to national banks. With regard to real property, national banks must adhere to the provisions of the National Bank Act, as amended, 12 U.S.C. § 1, *et seq.*, especially to 12 U.S.C. § 29 and to its related interpretive ruling on OREO, 12 C.F.R. § 7.3025. State banks are not required to comply with that interpretive ruling.

Under Interpretive Ruling 7.3025, a covered transaction is defined as a sale of OREO

> . . . where less than 10% of the total sales price is in cash; where there is financing by the bank of all or a portion of the sales price on terms more favorable than those customarily required by the bank where its only involvement is as lender; or where the transaction does not transfer from the bank to the buyer the usual risks of ownership and all or most of the rewards of ownership. (12 C.F.R. § 7.3025(b) (1988).)

Under the interpretive ruling, OREO sold in a covered transaction must continue to be treated by the bank as OREO so long as the transaction remains a covered transaction. 12 C.F.R. § 7.3025(a)(3).

In those transactions where the national bank receives less than 10 percent of the purchase price in cash, the real property must be treated as OREO until "the consideration received by the bank in cash, together with that portion of the sales price guaranteed to the bank by private mortgage insurance or an equivalent guarantee, equals or exceeds 10 percent of the total sales price." 12 C.F.R. § 7.3025(b) (1988). Thus, the period during which a sale of OREO remains a covered transaction under this part is subject to precise calculation at the time of sale and may be quite short.

Those transactions where the national bank finances the sale price on terms more favorable than when its only involvement is as a lender are those where the terms of the transaction permit continued control by a bank over the property. Merely offering a lower-than-market interest rate or generous payment arrangements will not be construed as "financing by the bank . . . on terms more favorable than . . . customarily required." See, *Below Market Rate OREO Mortgages Are Not Covered Transactions*, [1988-1989 Transfer Binder], Fed. Banking L. Rep. (CCH) ¶ 85,423 (June 3, 1983), a copy of which is enclosed for your information.

However, in those transactions where more favorable terms do require continuing treatment of the sale as OREO, the covered transaction will be considered closed (i.e., no longer OREO) when the property may be said to have been "meaningfully or economically disposed of," that is, when the collectibility of the sales price is reasonably assured and the bank is no longer involved with the property in an effort to promote repayment. *Id.* at 77,548.

Finally, in those transactions where the usual risks and rewards of ownership are not transferred to the buyer, the real estate sold will continue to be OREO until those risks and rewards are deemed to have been transferred. In other words, until the bank becomes assured that the purchase price will be repaid and that it is no longer necessary for the bank to exercise control over the property in order to promote repayment. If a significant portion of the purchase price has been paid (i.e., at least 10 percent), and the bank, based upon its ongoing analysis of the buyer's financial condition, is satisfied that the buyer will continue paying on the note, then the bank may identify the covered transaction as closed. Thus, your assertion that covered transactions may retain that status for 30 years or more seems to be overly pessimistic.

So long as a sale of OREO remains a covered transaction, it must be treated as OREO on the national bank's books and in its Call Reports. See, 12 C.F.R. § 7.3025(a)(3), and Federal Financial Institutions Examination Council, *Instructions [for] Consolidated Reports of Condition and Income* (1987). As OREO on the bank's books, the property in question is subject to the annual appaisal requirement set out at 12 C.F.R. § 7.3025(h). The preamble to the interpretive ruling, published in the Federal Register with the final version of that ruling, makes this requirement clear, as follows:

> The ... ruling clarifies the effect of a covered transaction by including property sold in this manner in the definition of other real estate owned as long as the transaction remains covered. This means that the bank must still obtain annual appraisals on the property and must report the loans as other real estate owned on reports of condition. ... The Comptroller believes ... that because of the potential for continuing work-out difficulties with such parcels, reporting the loans as other real estate owned more clearly reflects the bank's position. The ruling further clarifies the point that such reporting may cease when the conditions [illegible] a transaction to be covered have been [illegible]. [Emphasis added.] (44 Fed. Reg. [illegible] 1979).

Nevertheless, an annual appraisal need not be either as onerous or expensive as you anticipate. Indeed, no appraisal is necessary at all if the book value of the property is below the lower of 5 percent or equity capital or $25,000. And, if the value of the property has not declined since the prior appraisal, a letter from the appraiser certifying to that fact is all that is necessary. See 12 C.F.R. § 7.3025(h). If the appraised value is less than book value, the bank must establish an OREO reserve account. *Id.* Such a precaution is particularly necessary when the appraisal indicates that the value of the real estate has fallen so far below the book value that there is a likelihood that the buyer will abandon the property or fail to continue making payments on the note. However, the book value of the OREO property need not be written down to the appraised value with each annual appraisal. For more detailed information on accounting for sales of OREO, see Banking Circular 195 (May 1, 1985), and Statement of Financial Accounting Standards, No. 66, *Accounting for Sales of Real Estate* (FASB 66), and 12 C.F.R. § 7.3025 (1988).

Finally, please note that when an OREO property is sold and title is transferred from the national bank to the buyer under a covered transaction, the statutory 5-year holding period established under 12 U.S.C. § 29 is tolled. But should title revert to the bank while the transaction is still a covered transaction, the holding period resumes with its beginning date being the date the bank originally acquired title to the property. 12 C.F.R. § 7.3025(e).

In conclusion, then, OREO sold in a covered transaction must be appraised annually, and if the annual appraisal shows a decline in value, the bank must establish an OREO reserve account to cover the potential loss should the bank find it necessary to reacquire the property.

Please accept my apologies for the delay in responding to your letter.

Elizabeth H. Corey
Attorney

* * *

480—March 31, 1989

This responds to your letter of March 23, 1989, asking whether the termination of a non-absolute voting trust under the circumstances described below, would require the filing of a Notice under the Change in Bank Control Act of 1978, as amended, 12 U.S.C. § 1817(j). In my opinion no such Notice need be filed under that Act.

As we discussed over the telephone, and as set out in your letter, the members of a non-absolute voting trust (see OCC Banking Circular No. 232 issued January 26, 1989, for definition) which currently controls a national bank, propose to dissolve the voting trust. Of the shareholders who are not members of the voting trust, no one owns 10 percent or more of the bank's stock. Of the shareholders who are members of the voting trust, only one owns 10 percent or more of the bank's stock. That shareholder is another bank (Lender) which foreclosed on its security interest in slightly more than 25 percent of the bank's stock less than 2 years ago. Once the voting trust is dissolved, no shareholder will own 10 percent or more of the bank's stock except Lender which owns more than 25 percent of stock it acquired through foreclosure. Further, it is my understanding that none of the small shareholders intend to act in concert to control the bank after the voting trust is dissolved.

The Change in Bank Control Act provides, in pertinent part, that,

> [no] person, acting directly or indirectly or through or in concert with one or more persons, shall acquire control of any insured bank through a purchase, assignment, transfer, pledge, or other disposition of voting stock of such insured bank unless the appropriate Federal banking agency has been given sixty days prior written notice of such proposed acquisition. . . (12 U.S.C. § 1817(j)(1).)

However, prior notice of such acquisition of control is not required if the transaction is subject to the Bank Holding Company Act at 12 U.S.C. § 1842.

Ordinarily, when an individual (as opposed to a company or bank) acquires more than 25 percent of the stock of a national bank where the stock is held in a non-absolute voting trust, 60 days prior notice must be filed with the Office of the Comptroller of the Currency. If the stock is acquired by the individual as the result of a debt previously contracted, e.g., through foreclosure, a notice must be filed within 30 days after the acquisition date. See 12 C.F.R. § 5.50(f)(3), and OCC Banking Circular No. 232 (January 26, 1989). However, if a company or bank acquires control of an insured bank, whether through a direct purchase or as a result of a debt previously contracted, the requirements of the Change in Bank Control Act are pre-empted by the requirements of the Bank Holding Company Act of 1956, as amended, 12 U.S.C. §§ 1841, *et seq.*, at 1842. See 12 U.S.C. § 1817(j)(17).

In this situation, Lender, which is a bank, acquired more than 25 percent of the shares of the subject bank through foreclosure, an event which is specifically addressed by the Bank Holding Company Act at 12 U.S.C. § 1842(a)(A)(ii). Section 1842 provides that no prior notice need be filed with the Federal Reserve Board when controlling shares in a bank are acquired by another bank ". . . in the regular course of securing or collecting a debt previously contracted in good faith" so long as the stock is disposed of within 2 years.

Here, the stock acquired by Lender was subject to a non-absolute voting trust agreement. The acquisition of more than 25 percent gave Lender control of the voting trust as well as of the bank. Now, some time later, the voting trust is being dissolved leaving Lender as the single largest shareholder of the bank. Under section 1842, there was no necessity for Lender to file a notice either under the Change in Bank Control Act or under the Bank Holding Company Act when it acquired the defaulted stock. And, in my opinion, there is no necessity to file either of those notices upon dissolution of the voting trust because Lender's status as controlling shareholder has not changed. You may wish to contact the Federal Reserve to make sure that that agency concurs with the above-stated opinion.

Please feel free to contact the District Counsel's Office if you have additional questions or comments about this matter.

Elizabeth H. Corey
Attorney

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Mergers — April 1 to June 30, 1989

Most of the transactions in this section do not have an accompanying decision. The OCC reviewed the competitive effects of the proposals by using its standard procedures for determining whether the transactions had minimal or no adverse competitive effects. The Office found the proposals satisfied its criteria for transactions that clearly had no or minimal adverse competitive effects.

FIRST NATIONAL BANK OF WISCONSIN,
Marinette, Wisconsin, and American Bank of Wisconsin, Oconto, Wisconsin

Names of banks and type of transaction	Total assets
First National Bank of Wisconsin, Marinette, Wisconsin (4123), with	$ 29,959,000
and American Bank of Wisconsin, Oconto, Wisconsin, with	88,823,000
merged April 1, 1989, under charter and title of the former. The merged bank at date of merger had	118,781,000

* * *

LAFAYETTE NATIONAL BANK,
Lafayette, Indiana, and Union and Trust Company, Delphi, Indiana, and The Lowell National Bank, Lowell, Indiana

Names of banks and type of transaction	Total assets
Lafayette National Bank, Lafayette, Indiana (14175), with	$ 403,702,000
and Union Bank and Trust Company, Delphi, Indiana, with	92,469,000
and The Lowell National Bank, Lowell, Indiana (6765), with	148,702,000
merged April 1, 1989, under charter 14175 and title "INB National Bank, Northwest" in Lafayette. The merged bank at date of merger had	640,958,000

* * *

CENTERRE BANK, NATIONAL ASSOCIATION,
St. Louis, Missouri, and Boatmen's Bank of Jefferson County, Festus, Missouri, and Boatmen's Bank of O'Fallon, O'Fallon, Missouri, and The Boatmen's National Bank of St. Louis, St. Louis, Missouri

Names of banks and type of transaction	Total assets
Centerre Bank, National Association, St. Louis, Missouri (17304), with	$ 3,421,318,000
and Boatmen's Bank of Jefferson County, Festus, Missouri, with	121,794,000
and Boatmen's Bank of O'Fallon, O'Fallon, Missouri, with	60,798,000
and The Boatmen's National Bank of St. Louis, St. Louis, Missouri (12916), with	4,161,542,000
merged April 3, 1989, under charter 17304 and title "The Boatmen's National Bank of St. Louis." The merged bank at date of merger had	7,760,049,000

* * *

THE FIRST NATIONAL BANK OF BOWIE,
Bowie, Texas, and First National Bank of Nocona, Nocona, Texas

Names of banks and type of transaction	Total assets
The First National Bank of Bowie, Bowie, Texas (4265), with	$ 109,601,000
and First National Bank of Nocona, Nocona, Texas (11959), with	25,320,000
merged April 6, 1989, under charter and title of the former. The merged bank at date of merger had	N A

* * *

WHITNEY NATIONAL BANK IN ST. TAMMANY PARISH,
Mandeville, Louisiana, and St. Tammany National Bank, Mandeville, Louisiana

Names of banks and type of transaction	Total assets
Whitney National Bank in St. Tammany Parish, Mandeville, Louisiana (21955), with	$ 48,613,000
and St. Tammany National Bank, Mandeville, Louisiana (16978), with	51,091,000
merged April 6, 1989, under charter and title of the former. The merged bank at date of merger had	N A

* * *

UNITED STATES NATIONAL BANK OF OREGON,
Portland, Oregon, and The Valley National Bank of Oregon, Forest Grove, Oregon

Names of banks and type of transaction	Total assets
United States National Bank of Oregon, Portland, Oregon (4514), with	$ 8,869,174,000
and The Valley National Bank of Oregon, Forest Grove, Oregon (8554), with	93,580,000
merged April 7, 1989, under charter and title of the former. The merged bank at date of merger had	8,869,174,000

* * *

VALLEY FIRST NATIONAL BANK OF RHINELANDER,
Rhinelander, Wisconsin, and Valley National Bank, Woodruff, Wisconsin

Names of banks and type of transaction	Total assets
Valley First National Bank of Rhinelander, Rhinelander, Wisconsin (4312), with	$ 17,859,000
and Valley National Bank, Woodruff, Wisconsin (16787), with	64,874,000
merged April 7, 1989, under charter and title of the former. The merged bank at date of merger had	82,732,000

* * *

PARK NATIONAL BANK OF HOUSTON,
Houston, Texas, and The Commonwealth Bank, Bellaire, Texas

Names of banks and type of transaction	Total assets
Park National Bank of Houston, Houston, Texas (18349), with	$ 73,455,000
and The Commonwealth Bank, Bellaire, Texas, with	60,753,000
merged April 12, 1989, under charter and title of the former. The merged bank at date of merger had	N/A

* * *

UNION NATIONAL BANK OF TEXAS,
Austin, Texas, and Travis Bank and Trust, Austin, Texas

Names of banks and type of transaction	Total assets
Union National Bank of Texas, Austin, Texas (21889), with	$ 28,581,000
and Travis Bank and Trust, Austin, Texas, with	57,477,000
merged April 20, 1989, under charter and title of the former. The merged bank at date of merger had	N/A

* * *

AMERICAN NATIONAL BANK OF BRUNSWICK,
Brunswick, Georgia, and American Bank of Southeast Georgia, Kingsland, Georgia

Names of banks and type of transaction	Total assets
American National Bank of Brunswick, Brunswick, Georgia (14483), with	$ 208,472,000
and American Bank of Southeast Georgia, Kingsland, Georgia, with	17,861,000
merged April 21, 1989, under charter of the former and title "Barnett Bank of Southeast Georgia, National Association." The merged bank at date of merger had	226,333,000

* * *

NATIONAL BANK OF ALASKA,
Anchorage, Alaska, and Alliance Bank, Anchorage, Alaska

Names of banks and type of transaction	Total assets
National Bank of Alaska, Anchorage, Alaska (14651), with	$ 1,715,416,000
and Alliance Bank, Anchorage, Alaska, with	971,661,000
merged April 21, 1989, under charter and title of the former. The merged bank at date of merger had	N/A

* * *

MERCHANTS NATIONAL BANK OF MANCHESTER, Manchester, New Hampshire, and The Bedford Bank, Bedford, New Hampshire

Names of banks and type of transaction	Total assets
Merchants National Bank of Manchester, Manchester, New Hampshire (1520), with	$ 506,648,000
and The Bedford Bank, Bedford, New Hampshire, with	110,895,000
merged April 28, 1989, under charter of the former and title "First NH Bank, National Association." The merged bank at date of merger had	614,302,000

* * *

BANK ONE, RICHMOND, NATIONAL ASSOCIATION, Richmond, Indiana, and The First National Bank of Knightstown, Knightstown, Indiana

Names of banks and type of transaction	Total assets
Bank One, Richmond, National Association, Richmond, Indiana (17), with	$ 242,578,000
and The First National Bank of Knightstown, Knightstown, Indiana (872), with	40,318,000
merged May 1, 1989, under charter and title of the former. The merged bank at date of merger had	282,896,000

COMPTROLLER'S DECISION

On October 5, 1988, application was made to the Office of the Comptroller of the Currency for prior authorization to merge The First National Bank of Knightstown, Knightstown, Indiana (First National), into Bank One Richmond, National Association, Richmond, Indiana (Richmond). This application is based on an agreement finalized between the proponents on August 3, 1988

As of July 31, 1988, First National, an independent bank held total deposits of $36 million and operated 2 offices. As of the same date, Richmond held total deposits of $215 million and operated 13 offices. Richmond is wholly owned by Banc One Indiana Corporation (formerly American Fletcher Corporation), a second tier holding company subsidiary of Banc One Corporation, Columbus, Ohio. Banc One Corporation, with total assets of $18 billion, is a multibank holding company, which controls approximately 60 banks in Ohio, Indiana, Illinois, Michigan, Kentucky and Wisconsion.

The relevant geographic market for this proposal is the area including and immediately surrounding Knightstown, Indiana, the area where First National derives the bulk of its deposits. There are nine banks and one savings and loan association with twenty-one offices competing in the market. First National is ranked fourth in the market with a share of 12 percent Banc One Indiana Corporation is ranked eighth in the market with a share of 5 percent Consummation of this proposal will result in Banc One Indiana Corporation becoming the third largest competitor in the market with a share of 17 percent. Although one competitor will be eliminated nine competitors will remain in the relevant market Consequently, consummation of this proposal will not have a significantly adverse effect on competition

The Bank Merger Act requires this office to consider ". . the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the communities to be served." Richmond has the financial and managerial resources to absorb First National without adversely affecting its overall condition The future prospects for the resulting bank are favorable, as are the effects of the proposal on the convenience and needs of the general public to be served

A review of the records of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C 1828(c), and find that it does not significantly lessen competition in the relevant market Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

January 25, 1989

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition

* * *

BOATMEN'S FIRST NATIONAL BANK OF KANSAS CITY,
Kansas City, Missouri and Centerre Bank of Kansas City, National Association, Kansas City, Missouri

Names of banks and type of transaction	*Total assets*
Boatman's First National Bank of Kansas City, Kansas City, Missouri (3456), with	$ 2,290,342,000
and Centerre Bank of Kansas City, National Association, Kansas City, Missouri (21523) with	626,092,000
merged May 1, 1989, under charter and title of the former. The merged bank at date of merger had	2,907,738,000

* * *

THE HUNTINGTON NATIONAL BANK,
Columbus, Ohio, and The Citizens State Bank, Silverton, Ohio

Names of banks and type of transaction	*Total assets*
The Huntington National Bank, Columbus, Ohio (7745), with	$ 7,961,567,000
and The Citizens State Bank, Silverton, Ohio, with	46,927,000
merged May 1, 1989, under charter and title of the former. The merged bank at date of merger had	8,007,594,000

* * *

THE FIRST NATIONAL BANK IN ST. MARY PARISH,
Morgan City, Louisiana, and First National Bank in East Baton Rouge, Baton Rouge, Louisiana

Names of banks and type of transaction	*Total assets*
The First National Bank in St. Mary Parish, Morgan City, Louisiana (13851), with	$ 137,906,000
and First National Bank in East Baton Rouge, Baton Rouge, Louisiana (17643), with	24,743,000
merged May 4, 1989, under charter and title of the former. The merged bank at date of merger had	N/A

* * *

FIRST INTERSTATE BANK OF OREGON, NATIONAL ASSOCIATION,
Portland, Oregon, and Jefferson State Bank, Medford, Oregon

Names of banks and type of transaction	*Total assets*
First Interstate Bank of Oregon, National Association, Portland, Oregon (1553), with	$ 5,583,589,000
and Jefferson State Bank, Medford, Oregon, with	34,734,000
merged May 12, 1989, under charter and title of the former. The merged bank at date of merger had	5,615,260,000

* * *

SHAWMUT BANK, NATIONAL ASSOCIATION,
Boston, Massachusetts, and Shawmut Bank of Southeastern Massachusetts, National Association, New Bedford, Massachusetts

Names of banks and type of transaction	*Total assets*
Shawmut Bank, National Association, Boston, Massachusetts (15509), with	$ 8,550,842,000
and Shawmut Bank of Southeastern Massachusetts, National Association, New Bedford, Massachusetts (261), with	508,282,000
merged May 12, 1989, under charter and title of the former. The merged bank at date of merger had	9,059,124,000

* * *

COMMUNITY BANK & TRUST, NATIONAL ASSOCIATION,
Fairmont, West Virginia, and Lewis County Savings and Loan Company, Weston, West Virginia

Names of banks and type of transaction	*Total assets*
Community Bank & Trust, National Association, Fairmont, West Virginia (15760), with	$ 254,772,000
and Lewis County Savings and Loan Company, Weston, West Virginia, with	4,523,000
merged May 15, 1989, under charter and title of the former. The merged bank at date of merger had	N/A

* * *

FIRST INTERSTATE BANK OF OKLAHOMA, NATIONAL ASSOCIATION,
Oklahoma City, Oklahoma, and Bank of Edmond, National Association, Edmond, Oklahoma

Names of banks and type of transaction	*Total assets*
First Interstate Bank of Oklahoma, National Association, Oklahoma City, Oklahoma (21296), with	$ 1,067,864,000
and Bank of Edmond, National Association, Edmond, Oklahoma (18254), with	10,259,000
merged May 18, 1989, under charter and title of the former. The merged bank at date of merger had	N A

* * *

FIRST NATIONAL BANK OF ALBANY,
Albany, Texas, and First National Bank of Gordon, Gordon, Texas

Names of banks and type of transaction	*Total assets*
First National Bank of Albany, Albany, Texas (3248), with	$ 54,954,000
and First National Bank of Gordon, Gordon, Texas (5759) with	13,330,000
merged May 18, 1989, under charter and title of the former. The merged bank at date of merger had	N/A

* * *

THE FIRST NATIONAL BANK OF EL CAMPO,
El Campo, Texas, and Security Bank and Trust Company, Wharton, Texas

Names of banks and type of transaction	*Total assets*
The First National Bank of El Campo, El Campo, Texas (6112), with	$ 62,899,000
and Security Bank and Trust Company, Wharton, Texas with	43,121,000
merged May 18, 1989, under charter and title of the former. The merged bank at date of merger had	N/A

* * *

THE FROST NATIONAL BANK OF SAN ANTONIO,
San Antonio, Texas, and Parkdale Bank, Corpus Christi, Texas

Names of banks and type of transaction	*Total assets*
The Frost National Bank of San Antonio, San Antonio, Texas (5179), with	$ 2,337,464,000
and Parkdale Bank, Corpus Christi, Texas with	123,009,000
merged May 19, 1989, under charter and title of the former. The merged bank at date of merger had	2,453,535,000

* * *

CORNERSTONE BANK, NATIONAL ASSOCIATION,
Dallas, Texas, and Liberty National Bank, Dallas, Texas

Names of banks and type of transaction	*Total assets*
Cornerstone Bank, National Association, Dallas, Texas (20212), with	$ 199,581,000
and Liberty National Bank, Dallas, Texas (16852) with	77,038,000
merged May 25, 1989, under charter and title of the former. The merged bank at date of merger had	N/A

* * *

MIDSOUTH NATIONAL BANK,
Lafayette, Louisiana, and Commerce and Energy Bank of Lafayette, Lafayette, Louisiana

Names of banks and type of transaction	*Total assets*
MidSouth National Bank, Lafayette, Louisiana (18484), with	$ 59,013,000
and Commerce and Energy Bank of Lafayette, Lafayette, Louisiana, with	34,002,000
merged May 25, 1989, under charter and title of the former. The merged bank at date of merger had	N/A

* * *

FIRST SECURITY BANK OF UTAH, NATIONAL ASSOCIATION,
Ogden, Utah, and First Security Financial, Salt Lake City, Utah

Names of banks and type of transaction	Total assets
First Security Bank of Utah, National Association, Ogden, Utah (2597), with	$ 3,098,077,000
and First Security Financial, Salt Lake City, Utah, with	81,788,000
merged May 26, 1989, under charter and title of the former. The merged bank at date of merger had	3,158,654,000

* * *

AMCORE BANK, NATIONAL ASSOCIATION,
Rockford, Illinois, and Amcore Bank Colonial, Rockford, Illinois

Names of banks and type of transaction	Total assets
Amcore Bank, National Association, Rockford, Illinois (13652), with	$ 695,766,000
and Amcore Bank Colonial, Rockford, Illinois, with	67,145,000
merged May 30, 1989, under charter and title of the former. The merged bank at date of merger had	759,301,000

* * *

FIRST OF AMERICA BANK-LIBERTYVILLE, NATIONAL ASSOCIATION
Libertyville, Illinois, and First of America Bank-Grayslake, National Association, Grayslake, Illinois

Names of banks and type of transaction	Total assets
First of America Bank-Libertyville, National Association, Libertyville, Illinois (15594), with	$ 257,513,000
and First of America Bank-Grayslake, National Association, Grayslake, Illinois (15595), with	94,773,000
merged June 1, 1989, under charter of the former and title "First of America Bank-Northeast Illinois, National Association." The merged bank at date of merger had	358,828,000

* * *

FIRST OF AMERICA BANK-LIBERTYVILLE, NATIONAL ASSOCIATION
Libertyville, Illinois, and First of America Bank-Mundelein, National Association, Mundelein, Illinois

Names of banks and type of transaction	Total assets
First of America Bank-Libertyville, National Association, Libertyville, Illinois (15594), with	$ 166,979,000
and First of America Bank-Mundelein, National Association, Mundelein, Illinois (14391), with	84,676,000
merged June 1, 1989, under charter of the former and title "First of America Bank-Northeast Illinois, National Association." The merged bank at date of merger had	257,513,000

* * *

FIRST NATIONAL BANK,
Elkhart, Indiana, and American State Bank, Ligonier, Indiana

Names of banks and type of transaction	Total assets
First National Bank, Elkhart, Indiana (206), with	$ 854,647,000
and American State Bank, Ligonier, Indiana, with	59,864,000
merged June 10, 1989, under charter 206 and title "Ameritrust National Bank, Michiana." The merged bank at date of merger had	912,315,000

* * *

SEQUOR NATIONAL BANK TEXAS,
Dallas, Texas, and Preston North National Bank, Dallas, Texas

Names of banks and type of transaction	Total assets
Sequor National Bank Texas, Dallas, Texas (22036), with	$ 8,267,000
and Preston North National Bank, Dallas, Texas (17876), with	8,059,000
merged June 22, 1989, under charter and title of former. The merged bank at date of merger had	N A

* * *

NATIONAL EXCHANGE BANK AND TRUST OF FOND DU LAC,
Fond du Lac, Wisconsin, and Mount Calvary State Bank, Mount Calvary, Wisconsin

Names of banks and type of transaction	Total assets
National Exchange Bank and Trust of Fond du Lac, Fond du Lac, Wisconsin (13879), with	$ 207,417,000
and Mount Calvary State Bank, Mount Calvary, Wisconsin, with	24,604,000
merged June 23, 1989, under charter and title of the former. The merged bank at date of merger had	229,375,000

* * *

SOUTHTRUST BANK OF COVINGTON COUNTY, NATIONAL ASSOCIATION,
Opp, Alabama, and Southtrust Bank of Andalusia, National Association, Andalusia, Alabama

Names of banks and type of transaction	Total assets
Southtrust Bank of Covington County, National Association, Opp, Alabama (7985), with	$ 123,469,000
and Southtrust Bank of Andalusia, National Association, Andalusia, Alabama (18187), with	49,793,000
merged June 23, 1989, under charter and title of the former. The merged bank at date of merger had	183,262,000

* * *

FIRST NATIONAL BANK,
Elkhart, Indiana, and State Bank of Lima, Howe, Indiana

Names of banks and type of transaction	Total assets
First National Bank, Elkhart, Indiana (206), with	$ 912,315,000
and State Bank of Lima, Howe, Indiana, with	37,484,000
merged June 27, 1989, under charter of the former and title "Ameritrust National Bank, Michiana." The merged bank at date of merger had	949,589,000

* * *

THE CENTRAL TRUST COMPANY, NATIONAL ASSOCIATION,
Cincinnati, Ohio, and Citizens Fidelity (Ohio), National Association, Cincinnati, Ohio

Names of banks and type of transaction	Total assets
The Central Trust Company, National Association, Cincinnati, Ohio (16416), with	$ 3,511,236,000
and Citizens Fidelity (Ohio), National Association, Cincinnati, Ohio (17873), with	11,206,000
merged June 29, 1989, under charter and title of the former. The merged bank at date of merger had	3,522,422,000

* * *

THE AMERICAN NATIONAL BANK OF TERRELL,
Terrell, Texas, and Independent Bank-East, National Association, Rockwall, Texas

Names of banks and type of transaction	Total assets
The American National Bank of Terrell, Terrell, Texas (4990), with	$ 171,403,000
and Independent Bank-East, National Association, Rockwall, Texas (16156), with	37,889,000
merged June 30, 1989, under charter and title of the former. The merged bank at date of merger had	N/A

* * *

COMMERCIAL NATIONAL BANK OF PEORIA,
Peoria, Illinois, and First National Bank of Peoria, Peoria, Illinois

Names of banks and type of transaction	Total assets
Commercial National Bank of Peoria, Peoria, Illinois (3296), with	$ 594,158,000
and First National Bank of Morton, Morton, Illinois (14839), with	90,118,000
merged June 30, 1989, under charter and title of the former. The merged bank at date of merger had	685,194,000

* * *

Tables

NOTE: The structural tables were produced by the Bank Organization and Structure Department and the statistical tables were produced by the Applications Development Division

Changes in the structure of the national banking system, by states, January 1 to June 30, 1989

	In operation Dec 31, 1988	Organized and opened for business	Merged	Voluntary liquidations	Payouts	12 USC 214		In operation June 30 1989
						Converted to state banks	Merged with state banks	
Alabama	55	0	1	0	0	1	0	53
Alaska	3	0	0	0	0	0	0	3
Arizona	15	0	0	0	0	0	0	15
Arkansas	85	1	0	0	0	1	0	85
California	168	3	0	0	0	2	0	169
Colorado	242	13	1	1	0	0	1	252
Connecticut	18	2	0	0	0	0	0	20
Delaware	18	0	0	0	0	0	0	18
District of Columbia	24	1	0	0	0	0	0	25
Florida	167	8	1	0	0	0	1	173
Georgia	59	1	0	0	0	0	0	60
Hawaii	3	0	0	0	0	0	0	3
Idaho	7	1	0	0	0	0	0	8
Illinois	376	1	5	0	0	1	0	371
Indiana	100	1	4	0	0	0	0	97
Iowa	103	1	0	0	0	0	1	103
Kansas	168	0	1	0	0	0	2	165
Kentucky	82	1	0	0	0	0	0	83
Louisiana	54	1	3	0	0	0	1	51
Maine	7	0	0	0	0	0	0	7
Maryland	26	0	0	0	0	0	1	25
Massachusetts	40	3	2	0	0	0	0	41
Michigan	83	0	1	0	0	0	0	82
Minnesota	162	0	1	0	0	0	1	160
Mississippi	28	0	0	0	0	0	0	28
Missouri	95	1	3	0	0	0	0	93
Montana	57	0	0	1	0	0	0	56
Nebraska	113	1	0	0	0	0	1	113
Nevada	7	0	0	0	0	0	0	7
New Hampshire	17	0	0	0	0	0	0	17
New Jersey	61	0	0	0	0	0	1	60
New Mexico	41	0	0	0	0	0	0	41
New York	108	0	0	0	0	0	0	108
North Carolina	15	1	0	0	0	0	0	16
North Dakota	29	0	0	0	0	0	0	29
Ohio	136	2	1	0	0	0	0	137
Oklahoma	194	0	4	0	0	1	9	180
Oregon	9	0	1	0	0	0	0	8
Pennsylvania	169	3	0	0	0	0	1	171
Rhode Island	5	0	0	0	0	0	0	5
South Carolina	26	2	0	0	0	0	0	28
South Dakota	24	1	0	0	0	0	0	25
Tennessee	52	0	0	0	0	0	0	52
Texas	816	2	38	0	1	0	10	769
Utah	7	0	0	0	0	0	0	7
Vermont	12	0	0	0	0	0	0	12
Virginia	53	1	0	0	0	0	1	53
Washington	24	3	0	0	0	0	0	27
West Virginia	91	0	2	0	0	0	0	89
Wisconsin	117	0	1	0	0	0	0	116
Wyoming	34	0	0	0	0	0	1	33
Puerto Rico	1	0	0	0	0	0	0	1
United States	4,406	55	70	2	1	6	32	4,350

NOTES: Organized and opened for business includes all state banks converted to national banks as well as all newly formed national banks. The title "merged" is a generic term and includes all mergers, consolidations and purchase and assumptions where the resulting institution is a nationally chartered bank. Also included in this column are immediate FDIC assisted "merger" transactions where the resulting institution is a nationally chartered bank.
Voluntary liquidations include only straight liquidations of national banks. No liquidations pursuant to a purchase and assumption transaction are included in this total. Liquidations resulting from purchase and assumptions are included in the "merged" columns.
Payouts include all failed national banks where FDIC is named receiver and no other depository institution is named as successor. The title "merged" is a generic term and includes all mergers, consolidations and purchase and assumptions where the resulting institution is a state-chartered bank. Also included in this column are immediate FDIC assisted "merger" transactions where the resulting institution is a state-chartered bank.

Federal branches and agencies of foreign banks, by state

	Federal branches and agencies—open January 1, 1989	Applications, January 1 to June 30, 1989				Federal branches and agencies opened January 1 to June 30, 1989	Federal branches and agencies closed January 1 to June 30, 1989	Federal branches and agencies—open June 30, 1989
		Received	Approved	Disapproved	Withdrawn			
Total de novo	71	0	1	0	0	2	1	72
Federal branch								
California	3	0	0	0	0	0	0	3
District of Columbia	1	0	0	0	0	0	0	1
Illinois	1	0	0	0	0	0	0	1
New York	0	0	0	0	0	2	1	44
Limited federal branch								
Arizona	0	0	1	0	0	0	0	0
California	7	0	0	0	0	0	0	7
District of Columbia	2	0	0	0	0	0	0	2
Illinois	4	0	0	0	0	0	0	4
New York	6	0	0	0	0	0	0	6
Washington	1	0	0	0	0	0	0	1
Federal agency								
Florida	1	0	0	0	0	0	0	1
Total conversions	13	0	0	0	0	0	0	13
State agency to federal branch								
California	2	0	0	0	0	0	0	2
New York	9	0	0	0	0	0	0	9
State agency to limited federal branch								
California	1	0	0	0	0	0	0	1
New York	1	0	0	0	0	0	0	1

Applications for national bank charters, January 1 to June 30, 1989

	Received	Approved	Denied	Charters issued	State-chartered banks converted to national banks	Trust companies*	Nonbank banks*
Alabama	0	0	0	0	0	0	0
Alaska	0	0	0	0	0	0	0
Arizona	2	0	0	0	0	0	1
Arkansas	1	0	0	1	0	1	0
California	4	3	1	3	0	0	0
Colorado	2	2	0	4	9	0	0
Connecticut	1	0	0	2	0	0	0
Delaware	0	0	0	0	0	0	0
District of Columbia	0	0	0	1	0	0	0
Florida	5	4	0	8	0	1	0
Georgia	5	2	0	1	0	0	0
Hawaii	0	0	0	0	0	0	0
Idaho	1	1	0	1	0	0	1
Illinois	0	0	0	0	1	0	0
Indiana	0	0	0	0	1	0	0
Iowa	0	0	0	0	1	0	0
Kansas	1	0	0	0	0	0	0
Kentucky	0	1	0	0	1	0	0
Louisiana	0	0	0	1	0	0	0
Maine	0	0	0	0	0	0	0
Maryland	3	0	1	0	0	0	1
Massachusettes	1	2	0	3	0	0	0
Michigan	0	0	0	0	0	0	0
Minnesota	0	2	0	0	0	0	0
Mississippi	0	0	0	0	0	0	0
Missouri	0	0	0	1	0	0	0
Montana	0	0	0	0	0	0	0
Nebraska	1	2	0	1	0	0	0
Nevada	0	0	0	0	0	0	0
New Hampshire	1	0	0	0	0	0	0
New Jersey	1	0	0	0	0	0	0
New Mexico	0	0	0	0	0	0	0
New York	0	0	1	0	0	0	0
North Carolina	3	1	0	1	0	0	0
North Dakota	0	0	0	0	0	0	0
Ohio	2	2	0	2	0	0	1
Oklahoma	0	0	0	0	0	0	0
Oregon	0	0	0	0	0	0	0
Pennsylvania	1	0	0	3	0	0	0
Rhode Island	0	0	0	0	0	0	0
South Carolina	1	0	0	2	0	0	0
South Dakota	0	0	0	0	1	0	0
Tennessee	2	2	0	0	0	0	0
Texas	3	0	0	2	0	0	0
Utah	0	0	0	0	0	0	0
Vermont	0	0	0	0	0	0	0
Virginia	3	0	0	1	0	0	0
Washington	1	0	0	3	0	0	0
West Virginia	0	0	0	0	0	0	0
Wisconsin	0	0	0	0	0	0	0
Wyoming	0	0	0	0	0	0	0
Total	45	24	3	41	14	2	4

*These figures are included in the figures for received, approved, denied and charters issued

Applications for new national bank charters, approved and rejected, by states, January 1 to June 30, 1989

	Approved	*Rejected*
CALIFORNIA		
Six Rivers National Bank, Eureka	Jan 30	
The Bank of the Valley, National Association, Livermore		Feb 27
Marin Community Bank, National Association, San Rafael	June 2	
Templeton National Bank, Templeton	May 31	
COLORADO		
Firstbank of South Boulder, National Association, Boulder	Jan 18	
Firstbank of Beaver Creek, National Association, Unincorpated Eagle City	Mar 13	
FLORIDA		
Heritage National Bank, Fort Myers	Mar 1	
Society National Trust Company, Naples	Feb 10	
Ponte Vedra National Bank, Ponte Vedra Beach	Feb 16	
Citrus Bank, National Association, Vero Beach	June 7	
GEORGIA		
Lanier National Bank, Gainesville	Jan. 25	
North Georgia National Bank, Woodstock	Feb 23	
IDAHO		
The Idaho First National Bank, Boise	Apr. 6	
KENTUCKY		
Williamsburg National Bank, Williamsburg	Mar 10	
MARYLAND		
Concorde National Bank, Bethesda		Mar 21
MASSACHUSETTS		
First Financial Trust, National Association, Framingham	Jan. 11	
Commonwealth National Bank, South Hadley	Apr. 19	
MINNESOTA		
Crossroads National Bank, Chanhassen	Mar 10	
Wayzata Bank of the Lakes, National Association, Wayzata	Jan. 5	
NEBRASKA		
Norwest Bank Nebraska Bellevue, National Association, Bellevue	May 1	
American National Bank of Sarpy County, Papillion	Feb. 9	
NEW YORK		
Trans National Bank, Lake Success		June 30
NORTH CAROLINA		
Crown National Bank, Charlotte	Mar 15	
OHIO		
Capital Bank, National Association, Sylvania	Jan 13	
World Financial Network National Bank, Whitehall	Feb 21	
TENNESSEE		
Franklin National Bank, Franklin	May 4	
Enterprise National Bank, Memphis	June 7	

New national bank charters issued, January 1 to June 30, 1989

Title and location of bank	*Charter number*	*Date open*
ARKANSAS		
First Exchange Bank of Little Rock, National Association, Little Rock	21691	March 20
CALIFORNIA		
Rancho Dominguez Bank, National Association, Carson	21371	March 31
United Citizens National Bank, Los Angeles	21669	June 16
The Bank of Milpitas, National Association, Milpitas	21907	April 17
COLORADO		
Firstbank at Buckley/Quincy, National Association, Aurora	21679	January 13
Firstbank at Chambers/Mississippi, National Association, Aurora	21681	January 13
Firstbank at 9th/Corona, National Association, Denver	21675	June 23
Firstbank of Edgewater, National Association, Edgewater	21673	June 23
CONNECTICUT		
Liberty National Bank, Danbury	18745	February 11
Enfield National Bank, Enfield	21367	February 27
DISTRICT OF COLUMBIA		
Credit International Bank, National Association, Washington	21392	February 10
FLORIDA		
Liberty National Bank, Bradenton	21613	January 19
First National Bank of Southwest Florida, Cape Coral	21643	February 3
Security National Bank of Brevard, Melbourne	21747	January 30
First National Bank of Naples, Naples	21830	June 19
Sunbank Capital Management, National Association, Orlando	21888	March 1
Port St Lucie National Bank, Port St. Lucie	21778	April 3
Enterprise National Bank of Sarasota, Sarasota	21859	March 29
The Enterprise Bank, National Association, Winter Park	21653	April 11
GEORGIA		
Gwinnett National Bank, Duluth	21839	June 1
IDAHO		
The Idaho First National Bank, Boise	21979	June 1
LOUISIANA		
Whitney National Bank in St Tammany Parish, Mandeville	21995	April 6
MASSACHUSETTS		
Bank of New England Interim National Bank - No. 3, Boston	21569	January 20
Bank of New England Interim National Bank - No 1, Boston	21570	February 14
First Financial Trust, National Association, Framingham	21882	March 27
MISSOURI		
Citizens National Bank of Springfield, Springfield	21857	March 7
NEBRASKA		
American National Bank of Sarpy County, Papillion	18765	June 3
NORTH CAROLINA		
Enterprise Bank, National Association, Raleigh	21843	April 25
OHIO		
Standing Stone National Bank, Lancaster	21603	May 12
World Financial Network National Bank, Whitehall	21739	May 1
PENNSYLVANIA		
Regent National Bank, Philadelphia	18755	June 5
Metrobank of Philadelphia, National Association, Philadelphia	21690	June 1
First Bank, National Association, Uniontown	21847	February 25
SOUTH CAROLINA		
Southtrust Bank of Charleston, National Association, Charleston	21875	March 6

New national bank charters issued, January 1 to June 30, 1989 — continued

Title and location of bank	Charter number	Date open
Greenwood National Bank, Greenwood	21736	January 3
TEXAS		
The Deposit Insurance Bridge Bank, National Association, Dallas	21969	March 29
Sequoia National Bank, Dallas	22036	June 22
VIRGINIA		
The George Washington National Bank, Alexandria	21765	May 2
WASHINGTON		
Enterprise Bank of Bellevue, National Association, Bellevue	21879	April 19
Grant National Bank, Ephrata	21728	June 15
First National Bank of Port Orchard, Port Orchard	18750	April 18

State-chartered banks converted to national banks, January 1 to June 30, 1989

Title and location of bank	Effective date	Total assets
COLORADO		
Central Bank Aurora, National Association (21867), conversion of Central Bank of Aurora Aurora	April 1	$ 35 085 000
Central Bank Broomfield, National Association (21865), conversion of Central Bank of Broomfield, Broomfield	April 1	21 338 000
Central Bank Academy Boulevard, National Association (21871), conversion of Central Bank of Academy Boulevard, Colorado Springs	April 1	35 431 000
Central Bank Colorado Springs, National Association (21870), conversion of Central Bank of Colorado Springs, Colorado Springs	April 1	93 145 000
Central Bank of Denver, National Association (21860), conversion of Central Bank of Denver, Denver	March 20	1,231 737 000
Central Bank North Denver, National Association (21868), conversion of Central Bank of North Denver, Denver	April 1	88,379 000
Clear Creek National Bank, (21878), conversion of Bank of Georgetown, Georgetown	March 1	7,700 000
Central Bank Greeley, National Association (21866), conversion of Central Bank of Greeley, Greeley	April 1	16,470,000
Central Bank Chatfield, National Association (21869), conversion of Central Bank of Chatfield, Littleton	April 1	41,275,000
ILLINOIS		
Home State Bank/National Association (18763), conversion of Home State Bank of Crystal Lake, Crystal Lake	January 1	109,371,000
INDIANA		
The Huntington National Bank of Hamilton County, (21917), conversion of Huntington Bank, Hamilton County, Noblesville	January 1	79,370,000
IOWA		
Rolling Hills National Bank (21895), conversion of Anita State Bank, Anita	April 1	17,413,000
KENTUCKY		
Liberty National Bank of Jessamine, (21910), conversion of Bank of Jessamine, Nicholasville	April 1	21,246,000
SOUTH DAKOTA		
Bankfirst National Association, (21912), conversion of Bankfirst, Brookings	March 15	25,862,000

Mergers, January 1 to June 30, 1989*

	Transactions involving two or more operating banks	Transactions involving a single operating bank	Total
Received	108	29	137
Approved	91	32	123
Denied	2	1	3
Abandoned	4	3	7
Consummated	94	35	129

*Mergers is a generic term which includes mergers, consolidations and purchases and assumptions

Mergers consummated involving two or more operating banks, January 1 to June 30, 1989
(Dollar amounts in thousands)

Date consummated	*Merging banks* / *Resulting bank*	*Total assets*
	ALABAMA	
	Southtrust Bank of Andalusia, National Association, Andalusia (18187)	$ 49,793
	Southtrust Bank of Covington County, National Association, Opp (7985)	123,469
June 23	Southtrust Bank of Covington County, National Association, Opp (7985)	183,262
	ALASKA	
	National Bank of Alaska, Anchorage (14651)	1,715,416
	Alliance Bank, Anchorage	971,661
April 21	National Bank of Alaska, Anchorage (14651)	NA
	COLORADO	
	Avon National Bank, Avon (18296)	6,553
	Vail National Bank, Vail (16690)	33,913
March 10	Vail National Bank, Vail (16690)	40,847
	FLORIDA	
	The Citizens and Southern Bank of Florida, Tallahassee	74,139
	The Citizens and Southern National Bank of Florida, Fort Lauderdale (14376)	5,134,489
January 1	The Citizens and Southern National Bank of Florida, Fort Lauderdale (14376)	5,208,628
	First Florida Bank, National Association, Tampa (3497)	4,884,314
	First Florida Bank of Pasco County, National Association, Port Richey (21261)	31,509
January 13	First Florida Bank, National Association, Tampa (3497)	4,912,999
	Southeast Bank, National Association, Miami (15638)	13,015,487
	Southbank of Tallahassee, Tallahassee	22,137
March 13	Southeast Bank, National Association, Miami (15638)	13,028,044
	Eastern National Bank, Hialeah (15748)	84,535
	Enterprise Bank of Florida, Miami Lakes	27,534
March 17	Eastern National Bank, Coral Gables (15748)	NA
	GEORGIA	
	The Citizens and Southern National Bank, Savannah (13068)	11,761
	Heritage Trust, Conyers	14
March 31	The Citizens and Southern National Bank, Savannah (13068)	11,773
	American National Bank of Brunswick, Brunswick (14483)	208,472
	American Bank of Southeast Georgia, Kingsland	17,861
April 21	Barnett Bank of Southeast Georgia, National Association, Brunswick (14483)	226,333
	ILLINOIS	
	Prospect National Bank of Peoria, Peoria (14700)	72 223
	Commercial National Bank of Peoria, Peoria (3296)	445,381
	University National Bank of Peoria, Peoria (14711)	58,357
January 1	Commercial National Bank of Peoria, Peoria (3296)	571,426
	Amcore Bank Colonial, Rockford	67,145
	Amcore Bank National Association, Rockford, Rockford (13652)	695,766
May 30	Amcore Bank National Association, Rockford, Rockford (13652)	795,301
	First of America Bank-Libertyville, National Association, Libertyville (15594)	166,979
	First of America Bank-Mundelein, National Association, Mundelein (14391)	84,676
June 1	First of America Bank-Northeast Illinois, National Association, Libertyville (15594)	257,513
	First of America Bank-Libertyville, National Association, Libertyville (15594)	257,513
	First of America Bank-Grayslake, National Association, Grayslake (15595)	94 773
June 1	First of America Bank-Northeast Illinois, National Association, Libertyville (15594)	358 828
	First National Bank of Morton, Morton (14839)	90 118
	Commercial National Bank of Peoria, Peoria (3296)	594 158
June 30	Commercial National Bank of Peoria, Peoria (3296)	685 194
	INDIANA	
	Bank One, Carmel, Carmel	28 388
	Bank One Indianapolis, National Association, Indianapolis (13759)	3 593 972
January 1	Bank One Indianapolis, National Association, Indianapolis (13759)	3 620 738
	Liberty National Bank and Trust Company of Southern Indiana, Charlestown (17837)	109 059
	Liberty National Bank and Trust Company of Indiana, Corydon (21327)	80 585
January 1	Liberty National Bank and Trust Company of Indiana, Charlestown (17837)	189 644
	The Huntington National Bank of Hamilton County, Noblesville (21917)	75 709
	The Huntington National Bank of Indiana, Danville (152)	164 506
January 1	The Huntington National Bank of Indiana, Noblesville, (21917)	240 215

Mergers consummated involving two or more operating banks, January 1 to June 30, 1989 — continued
(Dollar amounts in thousands)

Date consummated	*Merging banks* / *Resulting bank*	*Total assets*
	Star Bank of Fayette County Bentonville	23 595
	Star Bank National Association Eastern Indiana, Richmond (1988)	322 946
February 3	Star Bank National Association, Eastern Indiana, Richmond (1988)	346.277
	The Indiana National Bank Indianapolis (984)	4,338,404
	Morgan County Bank & Trust Company, Eminence	30,460
March 13	The Indiana National Bank, Indianapolis (984)	4 361,139
	The Lowell National Bank Lowell (6765)	148,345
	Union Bank and Trust Company, Delphi	92,469
	Lafayette National Bank Lafayette (14175)	403,702
April 1	INB National Bank, Northwest Lafayette (14175)	640,958
	The First National Bank of Knightstown Knightstown (872)	40,318
	Bank One Richmond National Association Richmond (17)	242,578
May 1	Bank One Richmond National Association, Richmond (17)	282,896
	First National Bank, Elkhart (206)	854,647
	American State Bank, Ligonier	59,864
June 10	Ameritrust National Bank, Michiana, Elkhart (206)	912,315
	First National Bank, Elkhart (206)	912,315
	State Bank of Lima, Howe	37,484
June 27	Ameritrust National Bank, Michiana Elkhart (206)	949,589
	IOWA	
	The First National Bank in Glidden, Glidden (14326)	23,582
	Lohrville Savings Bank, Lohrville	12,687
January 6	The First National Bank in Glidden, Glidden (14326)	34,053
	KANSAS	
	Farmers National Bank of Gaylord, Gaylord (20566)	6,435
	The Farmers National Bank of Osborne, Osborne (5834)	20,192
January 23	The Farmers National Bank of Osborne, Osborne (5834)	26,575
	LOUISIANA	
	The National Bank of Bossier City, Bossier City (14687)	77,704
	Hibernia National Bank, New Orleans (13688)	5,363,874
January 12	Hibernia National Bank, New Orleans (13688)	NA
	Hibernia National Bank, New Orleans (13688)	5,363,874
	Louisiana Bank & Trust Company, Shreveport	323,166
February 16	Hibernia National Bank, New Orleans (13688)	NA
	Hibernia National Bank, New Orleans (13688)	5,363,874
	Livingston Bank, Denham Springs	107,480
March 16	Hibernia National Bank, New Orleans (13688)	NA
	St Tammany National Bank, Mandeville (16978)	51,091
	Whitney National Bank in St Tammany Parish, Mandeville (21955)	48,613
April 6	Whitney National Bank in St Tammany Parish, Mandeville (21955)	NA
	First National Bank of East Baton Rouge, Baton Rouge (17643)	24,743
	The First National Bank in St Mary Parish, Morgan City (13851)	137,906
May 4	The First National Bank in St Mary Parish, Morgan City (13851)	NA
	Midsouth National Bank, Lafayette (18484)	59,013
	Commerce and Energy Bank of Lafayette, Lafayette	34,002
May 25	Midsouth National Bank Lafayette (18484)	NA
	MASSACHUSETTS	
	Plymouth-Home National Bank Brockton (779)	456,377
	Bank of New England Interim National Bank No 3, Boston (21569)	851,393
	Bank of Cape Cod Falmouth	161,638
January [illegible]	Bank of New England South National Association, Brockton (779)	1,517,969
	Bank of New England Interim National Bank No 1 Boston (21570)	497,631
	Union National Bank Lowell (6077)	567,895
[illegible]	Bank of New England-North National Association Lowell (6077)	1,102,565
	Shawmut National Bank National Association Boston (15509)	8,550,842
	Shawmut Bank of Southeastern Massachusetts National Association, New Bedford (261)	508,282
May [illegible]	Shawmut Bank National Association Boston (15509)	9,059,124
	MICHIGAN	
	First of America Bank South Central National Association Quincy (2550)	62 733
	First of America Bank Michigan National Association Kalamazoo (191)	1 061 168
[illegible]	First of America Bank Michigan National Association Kalamazoo (191)	1 123 901

Mergers consummated involving two or more operating banks, January 1 to June 30, 1989 — continued
(Dollar amounts in thousands)

Date consummated	Merging banks / Resulting bank	Total assets
	National Bank of Detroit, Detroit (13671)	15 567 161
	Wyandotte Savings Bank, Wyandotte	375 547
January 2	National Bank of Detroit, Detroit (13671)	15 942 708
	MINNESOTA	
	First Bank National Association, Minneapolis (710)	17 118 000
	Suburban National Bank, Eden Prairie (16559)	66 000
March 21	First Bank National Association, Minneapolis (710)	17 184 000
	MISSOURI	
	Commerce Bank of St Louis, National Association, Clayton (16945)	1 666 890
	Commerce Bank of Jefferson County, National Association, Festus (16432)	117,178
January 1	Commerce Bank of St Louis, National Association, Clayton (16945)	1,774 982
	Centerre Bank of Springfield, Springfield	132 609
	The Boatman's National Bank of Springfield, Springfield (5209)	663,618
March 13	The Boatman's National Bank of Springfield, Springfield (5209)	796,198
	Boatman's Bank of Jefferson County, Festus	121 794
	Centerre Bank, National Association, St Louis (17304)	3 421 318
	Boatman's Bank of O'Fallon, O'Fallon	60,798
	The Boatman's National Bank of St Louis, St Louis (12916)	4 161,542
April 3	The Boatman's National Bank of St. Louis, St Louis (17304)	7,760,049
	Boatman's First National Bank of Kansas City, Kansas City (3456)	2 290,342
	Centerre Bank of Kansas City, National Association, Kansas City (21523)	626 092
May 1	Boatman's First National Bank of Kansas City, Kansas City (3456)	2,907 738
	NEBRASKA	
	Minatare State Bank, Minatare	5,582
	First National Bank in Morrill, Morrill (12625)	18,082
January 30	First National Bank in Morrill, Morrill (12625)	23,664
	NEW HAMPSHIRE	
	The Bedford Bank, Bedford	110,895
	Merchants National Bank of Manchester, Manchester (1520)	506,648
April 28	First NH Bank, National Association, Manchester (1520)	614,302
	NEW JERSEY	
	Sun National Bank, Medford (18606)	25,824
	Capitol State Bank, Trenton	23,756
January 27	Sun National Bank, Medford (18606)	49,580
	OHIO	
	The Citizens State Bank, Silverton	46,927
	The Huntington National Bank, Columbus (7745)	7,961 567
May 1	The Huntington National Bank, Columbus (7745)	8,007,594
	Citizens Fidelity (Ohio), National Association, Cincinnati (17873)	11,206
	The Central Trust Company, National Association, Cincinnati (16416)	3,511,236
June 29	The Central Trust Company, National Association, Cincinnati (16416)	3,522,442
	OKLAHOMA	
	Citizens Bank, National Association, Sapulpa (17809)	9 146
	The American National Bank of Bristow, Bristow (10849)	132,179
January 1	The American National Bank of Bristow, Bristow (10849)	141,325
	The National Bank of Commerce of Altus, Altus (13756)	40,505
	Oakwood National Bank, Enid (17807)	27 284
January 26	The National Bank of Commerce, Altus (13756)	NA
	The Fourth National Bank of Tulsa, Tulsa (13480)	428 521
	United Bank, Tulsa	54 282
January 31	The Fourth National Bank of Tulsa, Tulsa (13480)	482 515
	Bank of Oklahoma, National Association, Tulsa (13679)	1,854 125
	American National Bank of Midwest City, Midwest City (15211)	52 957
March 24	Bank of Oklahoma, National Association, Tulsa (13679)	1,903 879
	Southern National Bank, Tulsa (18308)	30 765
	Harvard Bank, Tulsa	23 966
March 30	Southern National Bank, Tulsa (18308)	NA
	First Interstate Bank of Oklahoma, National Association, Oklahoma City (21296)	1 067 864
	Bank of Edmond, National Association, Edmond (18254)	10 259
May 18	First Interstate Bank of Oklahoma, National Association, Oklahoma City (21296)	NA

Mergers consummated involving two or more operating banks, January 1 to June 30, 1989 — continued

(Dollar amounts in thousands)

Date consummated	*Merging banks* *Resulting bank*	*Total assets*
	OREGON	
	United States National Bank of Oregon, Portland (4514)	8,869,174
	The Valley National Bank of Oregon, Forest Grove (8554)	93,580
April 7	United States National Bank of Oregon, Portland (4514)	8,869,174
	First Interstate Bank of Oregon, National Association, Portland (1553)	5,583,589
	Jefferson State Bank, Medford	34,734
May 12	First Interstate Bank of Oregon, National Association, Portland (1553)	5,615,260
	TENNESSEE	
	First American Bank, Greenback	1,809
	First American National Bank, Nashville (3032)	3,290,511
	United Southern Bank of Cannon County, Woodbury	3,092
February 1	First American National Bank, Nashville (3032)	3,290,600
	TEXAS	
	First National Bank of Abilene, Abilene (4166)	379,810
	Bank of Commerce, Abilene	102,373
January 1	First National Bank of Abilene, Abilene (4166)	489,506
	Coronado Bank, El Paso	68,750
	Texas National Bank, El Paso (17943)	99,192
January 1	Texas National Bank, El Paso (17943)	172,508
	Community National Bank, Austin (15691)	139,054
	Oak Hill National Bank, Austin (20441)	18,195
January 12	Community National Bank, Austin (15691)	NA
	First National Bank of Cedar Park, Cedar Park (16962)	18,609
	Union National Bank of Texas, Austin (21889)	17,306
January 19	Union National Bank of Texas, Austin (21889)	NA
	Community Bank, National Association, Pinehurst (17921)	8,556
	Tomball National Bank, Tomball (18649)	36,075
January 26	Tomball National Bank, Tomball (18649)	NA
	Fidelity National Bank of Dallas, Dallas (18073)	48,904
	First State Bank of Texas, Duncanville	21,450
January 27	Fidelity National Bank of Dallas, Dallas (18073)	NA
	First Western National Bank of Plano, Plano (18546)	19,279
	First Western National Bank of Carrollton, Carrollton (17516)	53,300
	First Western National Bank of Mesquite, Mesquite (18547)	22,195
January 30	First Western National Bank, Carrollton (17516)	93,529
	Metropolitan National Bank, San Antonio (17825)	5,073
	Texas Bank, National Association, San Antonio (18350)	71,243
January 31	Texas Bank, National Association, San Antonio (18350)	78,180
	The Frost National Bank of San Antonio, San Antonio (5179)	2,290,739
	Westpoint National Bank, San Antonio (18444)	11,386
February 16	The Frost National Bank of San Antonio, San Antonio (5179)	NA
	Security Bank, Houston	27,802
	Texas Commerce Bank, National Association, Houston (10225)	11,654,921
February 16	Texas Commerce Bank, National Association, Houston (10225)	NA
	The First State Bank, Abilene	161,934
	NCNB Texas National Bank, Dallas (21834)	25,573,596
February 17	NCNB Texas National Bank, Dallas (21834)	25,718,265
	Inwood National Bank of Dallas, Dallas (15292)	105,615
	Centennial National Bank, Richardson (18320)	32,547
February 24	Inwood National Bank, Dallas (15292)	128,474
	Frost Bank North Austin, National Association, Austin (16024)	55,605
	The Frost National Bank of San Antonio, San Antonio (5179)	2,279,509
March 3	The Frost National Bank of San Antonio, San Antonio (5179)	2,332,821
	First Commercial Bank, National Association, Seguin (17862)	42,985
	Lakeway National Bank, Austin (17110)	15,915
March 9	First Commercial Bank, National Association, Seguin (17862)	NA
	The First National Bank of Rotan, Rotan (8693)	32,972
	The Farmers & Merchants State Bank, Ballinger	22,311
March 16	The First National Bank of Rotan, Rotan (8693)	NA
	Industrial Bank, Houston	67,897
	Metrobank, National Association, Houston (21017)	31,365
March 23	Metrobank, National Association, Houston (21017)	NA
	MBank Sherman, National Association, Sherman (3159)	298,920
	The Deposit Insurance Bridge Bank, National Association, Dallas (21969)	NA
	MBank Austin, National Association, Austin (4322)	758,299
	MBank Denton County, National Association, Lewisville (15104)	231,955

Mergers consummated involving two or more operating banks, January 1 to June 30, 1989 — continued
(Dollar amounts in thousands)

Date consummated	Merging banks Resulting bank	Total assets
	MBank Round Rock, National Association, Round Rock (21503)	177 236
	MBank Dallas, National Association, Dallas (13743)	7 346 877
	MBank Midcities, National Association, Arlington (14994)	364 763
	MBank Longview, National Association, Longview (4077)	266 624
	MBank The Woodlands, National Association, The Woodlands (16874)	173,261
	MBank Brenham, National Association, Brenham (3015)	175 610
	MBank Abilene, National Association, Abilene (15253)	208,746
	MBank Marshall, National Association, Marshall (4101)	183,323
	MBank Jefferson County, National Association, Port Arthur (5485)	369 616
	MBank Corsicana, National Association, Corsicana (11022)	130,983
	MBank Wichita Falls, National Association, Wichita Falls (3200)	543,935
	MBank Houston, National Association, Houston (15528)	4,100,028
	MBank Odessa, National Association, Odessa (16232)	356,396
	MBank Greenville, National Association, Greenville (14377)	139,045
	MBank Orange, National Association, Orange (14884)	157,000
	MBank Fort Worth, National Association, Fort Worth (11997)	846,431
	MBank Alamo, National Association, Alamo (4525)	836,343
March 29	The Deposit Insurance Bridge Bank, National Association, Dallas (21969)	NA
	First National Bank of Corpus Christi, Corpus Christi (15018)	81,535
	Northshore Bank, Portland	20,128
	First National Bank of Corpus Christi Gulfway, Corpus Christi (18277)	25,065
	First National Bank of Corpus Christi Southern, Corpus Christi (16958)	28,254
	First National Bank of Corpus Christi Western, Corpus Christi (17440)	23,635
March 30	First National Bank of Corpus Christi, Corpus Christi (15018)	165,496
	The First National Bank of Bowie, Bowie (4265)	109,601
	First National Bank of Nocona, Nocona (11959)	25,320
April 6	First National Bank of Bowie, Bowie (4265)	NA
	Park National Bank of Houston, Houston (18349)	73,455
	The Commonwealth Bank, Bellaire	60,753
April 12	Park National Bank of Houston, Houston (18349)	NA
	Travis Bank and Trust, Austin	57,477
	Union National Bank of Texas, Austin (21889)	28,581
April 20	Union National Bank of Texas, Austin (21889)	NA
	The First National Bank of El Campo, El Campo (6112)	62,899
	Security Bank and Trust Company, Wharton	43,121
May 18	The First National Bank of El Campo, El Campo (6112)	NA
	First National Bank of Gordon, Gordon (5759)	13,330
	First National Bank of Albany, Albany (3248)	54,954
May 18	First National Bank of Albany, Albany (3248)	NA
	The Frost National Bank of San Antonio, San Antonio (5179)	2,337,464
	Parkdale Bank, Corpus Christi	123,009
May 19	The Frost National Bank of San Antonio, San Antonio (5179)	2,453,535
	Liberty National Bank, Dallas (16852)	77,038
	Cornerstone Bank, National Association, Dallas (20212)	199 581
May 25	Cornerstone Bank, National Association, Dallas (20212)	NA
	Preston North National Bank, Dallas (17876)	8,059
	Sequor National Bank Texas, Dallas (22036)	8,267
June 22	Sequor National Bank Texas, Dallas (22036)	NA
	The American National Bank of Terrell, Terrell (4990)	171 403
	Independent Bank - East, National Association, Rockwall (16156)	37 889
June 30	The American National Bank of Terrell, Terrell (4990)	NA
	UTAH	
	First Security Financial, Salt Lake City (17885)	81,788
	First Security Bank of Utah, National Association, Ogden (2597)	3,098,077
May 26	First Security Bank of Utah, National Association, Ogden (2597)	3 158,654
	WASHINGTON	
	First Interstate Bank of Washington, National Association, Seattle (3417)	3 313 938
	Bank of Spokane, Spokane	33 803
January 13	First Interstate Bank of Washington, National Association, Seattle (3417)	3 345 034
	U S Bank of Washington, National Association, Seattle (14394)	3 921 361
	Northwestern Commercial Bank, Bellingham	108 569
February 6	U S. Bank of Washington, National Association, Seattle (14394)	4 024 818
	U S Bank of Washington, National Association, Seattle (14394)	4 024 818
	Auburn Valley Bank, Auburn	46 130
March 6	U S Bank of Washington, National Association Seattle (14394)	4 070 465

Mergers consummated involving two or more operating banks, January 1 to June 30, 1989 — continued
(Dollar amounts in thousands)

Date consummated	*Merging banks* / *Resulting bank*	Total assets
	WEST VIRGINIA	
	The Old National Bank of Jefferson County, Ranson (18735)	15,506
	The Old National Bank of Martinsburg, Martinsburg (6283)	151,677
January 3	Old National Bank, Martinsburg (6283)	164 623
	Community Bank and Trust, National Association, Fairmont (15760)	201,321
	Community Bank & Trust Stonewall, National Association, Weston (16761)	16,301
January 23	Community Bank & Trust, National Association, Fairmont (15760)	217,280
	Community Bank & Trust, National Association, Fairmont (15760)	254,772
	Lewis County Savings and Loan Company, Weston	4,523
May 15	Community Bank & Trust, National Association, Fairmont (15760)	NA
	WISCONSIN	
	Associated De Pere Bank, De Pere	99,107
	Kellogg-Citizens National Bank of Green Gay, Green Bay (2132)	613,625
January 1	Kellogg-Citizens National Bank of Green Gay, Green Bay (2132)	712,176
	Bank One, Larsen, Larsen	18,165
	Bank One, Neenah, National Association, Neenah (6034)	63,745
February 3	Bank One, Neenah, National Association, Neenah (6034)	81,910
	First National Bank of Wisconsin, Marinette (4123)	29,959
	American Bank of Wisconsin, Oconto	88,823
March 1	First National Bank of Wisconsin, Oconto (4123)	118,781
	Valley First National Bank of Rhinelander, Rhinelander (4312)	17,859
	Valley National Bank, Woodruff (16787)	64,874
April 7	Valley First National Bank of Rhinelander, Rhinelander (4312)	82,732
	Mount Calvary State Bank, Mount Calvary	24,604
	National Exchange Bank and Trust of Fond Du Lac, Fond Du Lac (13879)	207,417
June 23	National Exchange Bank and Trust of Fond Du Lac, Fond Du Lac (13879)	229,375

Mergers consummated involving a single operating bank, January 1 to June 30, 1989
(Dollar amounts in thousands)

Date consummated	*Merging banks* / *Resulting bank*	*Total assets*
	CALIFORNIA	
	National Bank of the Redwoods, Santa Rosa	
	NBR Interim National Bank, Santa Rosa	
January 24	National Bank of the Redwoods, Santa Rosa (18541)	$ 83,819
	Bank of Whittier, National Association, Whittier	
	Whittier Interim Bank, National Association, Whittier	
March 31	Bank of Whittier, National Association, Whittier (17548)	30,801
	COLORADO	
	The Canaan National Bank, Canaan	
	The Interim National Bank of Canaan, Canaan	
April 7	The Canaan National Bank, Canaan (8511)	290,624
	FLORIDA	
	Terrabank Interim Bank, National Association, Miami	
	Terrabank National Association, Miami	
January 1	Terrabank National Association, Miami (20157)	101,716
	Indian River Interim National Bank, Vero Beach	
	Indian River National Bank, Vero Beach	
May 19	Indian River National Bank, Vero Beach (18582)	41,247
	GEORGIA	
	The Calhoun First Interim National Bank, Calhoun	
	The Calhoun First National Bank, Calhoun	
May 19	The Calhoun First National Bank, Calhoun (7549)	122,812
	Peachtree National Bank, Peachtree City	
	PNB National Interim Bank, Peachtree City	
May 31	Peachtree National Bank, Peachtree City (20668)	39,138
	ILLINOIS	
	M.C National Bank, Mason City	
	Mason City National Bank, Mason City	
February 28	Mason City National Bank, Mason City (14492)	39,904
	The First National Bank of Harrisburg, Harrisburg	
	Harrisburg Merger Bank, National Association, Harrisburg	
May 31	The First National Bank of Harrisburg, Harrisburg (4003)	103,349
	INDIANA	
	First Interstate Bank of Northern Indiana, National Association, South Bend	
	First Interstate Interim Bank of Northern Indiana, National Association, South Bend	
January 17	First Interstate Bank of Northern Indiana, National Association, South Bend (13987)	223,211
	MICHIGAN	
	National Bank of Hastings, Hastings	
	NBH National Bank, Hastings	
May 1	National Bank of Hastings, Hastings (13857)	33,361
	First National Bank in Howell, Howell	
	Howell Interim Bank, National Association, Howell	
May 12	First National Bank in Howell, Howell (14144)	104,234
	New National Bank of Iron Mountain, Iron Mountain	
	The First National Bank of Iron Mountain, Iron Mountain	
June 30	The First National Bank of Iron Mountain, Iron Mountain (3806)	102,649
	FMB-Security National Bank, Manistee	
	Security National Bank of Manistee, Manistee	
June 30	FMB-Security National Bank, Manistee (14843)	96,036
	MINNESOTA	
	North Interim Bank, National Association, Crystal	
	The Bank North, Crystal	
May 1	The Bank North, National Association, Crystal (21935)	113,198
	Bank of Excelsior, Excelsior	
	Excelsior Interim Bank, National Association, Excelsior	
May 1	The Bank Excelsior, National Association, Excelsior (21939)	80,192
	The Bank Wayzata, Wayzata	
	Wayzata Interim Bank, National Association, Wayzata	
May 1	The Bank Wayzata, National Association, Wayzata (21945)	188,273

Mergers consummated involving a single operating bank, January 1 to June 30, 1989 — continued

(Dollar amounts in thousands)

Date consummated	Merging banks Resulting bank	Total assets
June 30	First National Bank of Chisholm Chisholm New First National Bank of Chisholm, Chisholm First National Bank of Chisholm, Chisholm (7647)	37,746
	NEW JERSEY	
February 28	National Community Bank of New Jersey, Rutherford NCB National Bank, Rutherford National Community Bank of New Jersey, Rutherford (5005)	3,255,598
	NEW YORK	
January 3	City National Bank & Trust Company of Gloversville, Gloversville CNB National Bank, Gloversville City National Bank & Trust Company of Gloversville, Gloversville (9305)	116,629
January 18	BNB National Bank, New York Broadway National Bank, New York Broadway National Bank, New York (20622)	34,000
January 31	ENB National Bank, Angola The Evans National Bank of Angola, Angola The Evans National Bank of Angola, Angola (11583)	61,738
March 31	BNB National Bank, Bridgehampton The Bridgehampton National Bank, Bridgehampton The Bridgehampton National Bank, Bridgehampton (9669)	78,765
April 1	Ellenville Interim, National Association, Ellenville Ellenville National Bank, Ellenville Ellenville National Bank, Ellenville (14800)	111,026
May 1	RNB National Bank, Alexandria Bay The Redwood National Bank, Alexandria Bay The Redwood National Bank, Alexandria Bay (10374)	19,083
	OHIO	
March 21	FNM Interim National Bank, Massillon The First National Bank in Massillon, Massillon The First National Bank in Massillon, Massillon (13687)	187,650
June 30	Citizens Interim, National Association, Urbana The Citizens National Bank of Urbana, Urbana Citizens National Bank of Urbana, Urbana (863)	99,300
June 30	The First National Bank of Dennison, Dennison The FNB National Bank, Dennison The First National Bank of Dennison, Dennison (13802)	55,112
	PENNSYLVANIA	
June 30	North East Interim National Bank, North East The First National Bank of North East North East The National Bank of North East, North East (9149)	45,249
	SOUTH CAROLINA	
March 31	Greenville National Bank, Greenville New Greenville National Bank, Greenville Greenville National Bank Greenville (18097)	41,901
	TEXAS	
June 15	Concorde Bank Dallas, National Association, Dallas Northern Trust Bank of Texas, National Association, Dallas Northern Trust Bank of Texas, National Association, Dallas (18644)	72,483
	VIRGINIA	
January 31	Luray National Bank Luray The Page Valley National Bank of Luray Luray The Page Valley National Bank of Luray Luray (6206)	42,415
	WEST VIRGINIA	
[illegible]	The First National Bank of Parsons Parsons Parsons Interim National Bank Inc Parsons The First National Bank of Parsons, Parsons (9610)	25,08[illegible]

Mergers consummated involving a single operating bank, January 1 to June 30, 1989 — continued
(Dollar amounts in thousands)

Date consummated	*Merging banks* *Resulting bank*	*Total assets*
	Guyan Interim National Bank, Barboursville	
	Guyan National Bank, Barboursville	
June 30	Guyan National Bank, Barboursville (16385)	23 706
	WISCONSIN	
	First National Bank, Boyd	
	Peoples Exchange Bank, Thorp	
	The First National Bank of Chippewa Falls, Chippewa Falls	
January 1	First National Bank, Boyd (2125)	125,000

National banks converted to state banks, January 1 to June 30, 1989

Title and location of bank	*Effective date*	*Total assets*
ALABAMA		
Gulf National Bank, Orange Beach (21463), converted to Gulf Bank	March 10	$ 5,102,000
ARKANSAS		
First National Bank of Brinkley, Brinkley (15387), converted to First Bank of Arkansas	January 25	16,820,000
CALIFORNIA		
Mariners Bank, N.A., San Clemente (17470), converted to Mariners Bank	February 1	51,637,000
Upland National Bank, Upland (18160), converted to Upland Bank	January 1	40,994,000
ILLINOIS		
Magna Bank of Lincoln, N.A., Lincoln (14118), converted to Magna Bank of Lincoln	June 7	77,112,000
OKLAHOMA		
Memorial Bank, N.A., Oklahoma City (17808), converted to Memorial Bank	January 31	22,753,000

National banks merged into state banks, January 1 to June 30, 1989

Title and location of bank	*Effective date*	*Total assets of national banks*
COLORADO		
Bank of Lakewood, N A., Lakewood (17169), merged into Bank of Lakewood, Lakewood	April 27	$ 11 201 000
FLORIDA		
Seminole National Bank, Hollywood (18549), merged into Family Bank of Hallandale, Hallandale	April 27	11,309,000
IOWA		
Norwest Bank of Keokuk, N A , Keokuk (20442), merged into Keokuk Savings and Trust Company, Keokuk	March 31	36 280,000
KANSAS		
National Bank of Wichita, Wichita (15291), merged into Emprise Bank, Wichita	January 1	53,005,000
First National Bank at Oswego, Oswego (11576), merged into Parsons Commercial Bank, Parsons	May 18	23,712,000
LOUISIANA		
Bankers Trust of Louisiana, N A., Kenner (20879), merged into Investors Bank and Trust Company, Kenner	March 9	83 547,000
MARYLAND		
Eastern Shore National Bank, Pocomoke City (14106), merged into Peninsula Bank, Princess Anne	January 1	67,461,000
MINNESOTA		
First National Bank of Dunnell (6738), merged into Farmers State Bank of Trimont, Trimont	February 1	5,657,000
NEBRASKA		
Northwest National Bank, Grand Island (17372), merged into Union Bank and Trust Company, Lincoln	January 23	12,712,000
NEW JERSEY		
United Jersey Bank/Wood Ridge National, Wood Ridge (13265), merged into United Jersey Bank, Hackensack	April 29	107,678,000
OKLAHOMA		
The First National Bank in Carmen, Carmen (12498), merged into Cleo State Bank, Cleo Springs	May 1	6,227,000
First National Bank of Guthrie, Guthrie (4348), merged into BancFirst, Oklahoma City	April 1	43,902,000
First National Bank in Madill, Madill (13021), merged into BancFirst, Oklahoma City	April 1	32,608,000
Century Bank, N A , Oklahoma (18546), merged into The Oklahoma Bank, Oklahoma City	May 31	20,696,000
Allied Oklahoma Bank, N A., Oklahoma City (17095), merged into Central Bank of Oklahoma City, Oklahoma City	April 13	60,538,000
First National Bank of Prague, Prague (7177), merged into BancFirst, Oklahoma City	April 1	38,947,000
First National Bank of Seminole, Seminole (9514), merged into BancFirst, Oklahoma City	April 1	39,779,000
Federal National Bank and Trust Company, Shawnee (12339), merged into BancFirst, Oklahoma City	April 1	239,216,000
First National Bank and Trust Company, Stillwater (5206), merged into BancFirst, Oklahoma City	April 1	102 174,000
PENNSYLVANIA		
Valley National Bank, Freeport (13826), merged into First Seneca Bank, Butler	June 15	61,147,000
TEXAS		
Premier Bank, National Association (18167), merged into Deposit Guaranty Bank, Dallas	March 31	32,025 000
Texas National Bank, Houston (18221), merged into First Texas Bank, Dallas	February 16	37 976 000
West Belt National Bank, Houston (17589), merged into Deposit Guaranty Bank, Dallas	January 12	26,121 000
First Texas Bank, N A., Irving (20542), merged into First Texas Bank, Dallas	April 28	6 924 000
Katy National Bank, Katy (14737), merged into First Bank, Navasota	May 4	62 870 000
American National Bank of Plano, Plano (16907), merged into Deposit Guaranty Bank, Dallas	March 31	44 182 000
International Bank of Commerce, N A , San Antonio (18047), merged into International Bank of Commerce, Laredo	May 1	53 377 000
Continental National Bank, San Antonio (16490), merged into Citizens State Bank of Luling, Luling	April 20	12 393 000
Lake Country National Bank, Burnet (17791), merged into Lake Buchanan State Bank, Buchanan Dam	June 8	9 898 000
First National Bank of Richardson, Richardson (15283), merged into Deposit Guaranty Bank, Dallas	June 30	52 728 000
VIRGINIA		
Colonial American National Bank, Roanoke (11817), merged into Crestar Bank, Richmond	May 1	372 348 000
WYOMING		
First Interstate Bank N A , Greybull (10810), merged into First Interstate Bank of Commerce, Sheridan	January 1	18 8[illegible]

National banks in voluntary liquidation, January 1 to June 30, 1989

Title and location of bank	Effective date	Total assets
COLORADO		
Fort Carson National Bank, Fort Carson (15620)	June 30	$1,303,000
MONTANA		
Glacier National Bank, Columbia Falls (16580)	May 5	NA

National bank liquidated under emergency procedures, January 1 to June 30, 1989

Title and location of bank	Effective date	Total assets
TEXAS		
First Continental National Bank, Houston (17632)	February 15	NA

Assets, liabilities and capital accounts of national banks, March 31, 1988, and March 31, 1989
(Dollar amounts in millions)

	Mar 31 1988 4,520 banks	*Mar 31 1989 4,302 banks**	*Change Mar 31 1988 Mar 31 1989 Fully consolidated*	
	Consolidated foreign and domestic	*Consolidated foreign and domestic*	*Amount*	*Percent*
Assets				
Cash and balances due from depository institutions.				
Noninterest-bearing balances and currency and coin	$ 109,693	$ 123,491	$ 13,798	12.6
Interest-bearing balances	86,362	74,095	-12,267	14.2
Securities	291,307	300,004	8,697	3.0
Federal funds sold and securities purchased under agreements to resell	82,055	79,193	2,862	3.5
Loans and leases, net of unearned income	1,131,054	1,195,182	64,128	5.7
Less allowance for loan and lease losses	33,020	29,057	-3,963	-12.0
Less allocated transfer risk reserve	132	143	11	8.3
Net loans and leases	1,097,902	1,165,982	68,080	6.2
Premises and fixed assets	26,829	27,186	357	1.3
Other real estate owned	6,843	7,147	304	4.4
Other assets	74,515	83,550	9,035	12.1
Total assets	1,775,507	1,860,647	85,140	4.8
Liabilities				
Demand deposits in domestic offices	249,659	253,825	4,166	1.7
Interest-bearing deposits in domestic offices	883,992	970,367	86,375	9.8
Total domestic deposits	1,133,651	1,224,192	90,541	8.0
Total foreign deposits	204,120	198,305	-5,815	2.8
Total deposits	1,337,771	1,422,497	84,726	6.3
Federal funds purchased and securities sold under agreements to repurchase	176,070	166,105	-9,965	5.7
Interest-bearing demand notes issued to the U.S. Treasury	13,708	7,124	-6,584	48.0
Other liabilities for borrowed money	71,152	77,071	5,919	8.3
Subordinated notes and debentures	9,617	9,389	-228	-2.4
All other liabilities	66,620	66,714	94	0.1
Total liabilities	1,674,936	1,748,901	73,965	4.4
Limited-life preferred stock	68	76	8	11.8
Equity capital				
Perpetual preferred stock	862	818	44	-5.1
Common stock	16,754	16,442	-312	1.9
Surplus	37,533	40,041	2,508	6.7
Undivided profits and capital reserves	45,650	54,833	9,183	20.1
Cumulative foreign currency translation agreements	296	-465	169	57.1
Total equity capital	100,504	111,670	11,166	11.1
Total liabilities, limited-life preferred stock, and equity capital	1,775,507	1,860,647	85,140	4.8

*Reporting national banks. Does not include the nonnational bank in the District of Columbia.

NOTE. The deposit figures in this table and the *Consolidated foreign and domestic assets, liabilities and capital accounts of national banks by states* table in last two issues of the *Quarterly Journal* (Volume 8, Numbers 1 and 2) were reported incorrectly. The total liabilities figures reported in both issues were correct. The error has been corrected.

Income and expenses of foreign and domestic offices and subsidiaries of national banks, March 31, 1989
(Dollar amounts in millions)

	4,302 banks*	
	Consolidated foreign and domestic	*Percent distribution*
Interest income		
Interest and fee income on loans	$ 34,721	76.0
Income from lease financing receivables	653	1.4
Interest income on balances due from depository institutions	1,972	4.3
Interest and dividend income on securities	5,849	12.8
Interest income from assets held in trading accounts	500	1.1
Interest income from federal funds sold and securities purchased under agreements to resell	1,992	4.4
Total interest income	45,686	100.0
Interest expense		
Interest on deposits	21,553	74.5
Expense of federal funds purchased and securities sold under agreements to repurchase	3,954	13.7
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	3,160	10.9
Interest on mortgage indebtedness and obligations under capitalized leases	39	0.1
Interest on notes and debentures subordinated to deposits	224	0.8
Total interest expense	28,930	100.0
Net interest income	16,756	
Provision for loan and lease losses	2,389	
Provision for allocated transfer risk	0	
Noninterest income		
Service charges on deposit accounts	1,503	20.4
Other noninterest income	5,871	79.6
Total noninterest income	7,373	100.0
Gains and losses on securities not held in trading accounts	16	
Noninterest expense		
Salaries and employee benefits	7,175	45.4
Expenses of premises and fixed assets (net of rental income)	2,458	15.6
Other noninterest expense	6,168	39.0
Total noninterest expense	15,802	100.0
Income (loss) before income taxes and extraordinary items and other adjustments	5,954	
Applicable income taxes	1,778	
Income before extraordinary items and other adjustments	4,176	
Extraordinary items and other adjustments, net of taxes	161	
Net income	4,337	
Total cash dividends declared	1,911	
Recoveries credited to allowance for possible loan losses	705	
Losses charged to allowance for possible loan losses	3,216	
Net loan losses	2,511	
Ratio to total operating income		
Interest on deposits	40.6	
Other interest expense	13.9	
Salaries and employee benfits	13.5	
Other noninterest expense	16.3	
Total operating expenses	84.3	
Ratio of net income (annualized) to		
Total assets (end of period)	0.93	
Total equity capital	15.54	

*Reporting national banks. Does not include the nonnational bank in the District of Columbia

Deposits of national banks, by states, March 31, 1989
(Dollar amounts in millions)

	Total demand deposits at domestic offices	*NOW and automatic transfer accounts*	*Money market deposit accounts*	*Other large time deposits*	*All other time deposits at foreign offices*	*Total deposits at foreign offices*	*Total consolidated deposits*
All national banks	$253,852	$113,551	$206,267	$200,123	$412,488	$198,305	$1 384 587
Alabama	2,072	1,136	2,150	1,508	4 844	142	11 853
Alaska	620	124	350	358	555	1	2 008
Arizona	2,953	1,452	3,441	1,434	5 646	0	14 926
Arkansas	1,465	1,294	1,196	1,102	3,489	0	8,546
California	33,840	13,679	26,729	18,185	37,990	28,797	159 220
Colorado	3,716	2,080	3,083	2,496	4,255	321	15,951
Connecticut	3,710	1,406	2,743	1,485	5,837	426	15,607
Delaware	234	73	1,718	3,401	507	85	6 018
District of Columbia	2,784	1,263	3,272	2,497	2,143	2,672	14 630
Florida	14,590	8,657	14,535	10,631	24,176	1,173	73,761
Georgia	6,469	2,557	4,964	3,699	8,216	1,047	26,951
Hawaii	56	33	25	42	73	0	228
Idaho	733	604	935	379	2,003	0	4,655
Illinois	13,194	4,796	7,958	18,399	19,192	20,558	84,097
Indiana	4,246	2,461	3,099	3,071	10,311	322	23,510
Iowa	1,526	1,099	1,083	511	4,076	0	8,295
Kansas	1,555	1,200	1,572	1,337	3,711	0	9,374
Kentucky	2,185	1,486	1,120	1,425	5,011	282	11,508
Louisiana	3,645	1,467	3,509	3,516	5,493	467	18,098
Maine	447	302	648	325	1,373	0	3,096
Maryland	3,812	1,175	3,274	1,651	5,970	714	16,596
Massachusetts	7,718	2,163	8,594	5,785	7,978	7,946	40,184
Michigan	7,257	2,346	5,830	5,406	14,399	2,813	38 051
Minnesota	4,723	2,511	3,152	3,372	8,294	915	22,967
Mississippi	1,318	835	1,106	1,261	3,121	0	7,639
Missouri	4,985	2,392	3,470	3,239	7,198	38	21,322
Montana	466	448	488	241	1,402	0	3,045
Nebraska	1,496	1,188	1,046	630	4,095	0	8 455
Nevada	988	462	774	270	1,102	0	3 596
New Hampshire	482	409	607	607	1,427	0	3,532
New Jersey	11,379	4,347	8,344	6,666	20,013	213	50,962
New Mexico	794	750	845	907	1,834	0	5,130
New York	33,382	7,824	24,886	26,195	33,950	109,288	235 526
North Carolina	6,154	3,018	4,975	6,270	11,262	2,552	34 232
North Dakota	310	454	276	253	1,324	0	2 616
Ohio	10,092	5,458	8,331	7,670	25,720	2,002	59 273
Oklahoma	2,568	1,690	1,899	2,022	5,160	48	13 388
Oregon	2,275	1,571	1,940	1,218	4,461	0	11,464
Pennsylvania	13,368	5,292	12,547	9,875	25,477	10 117	76 677
Rhode Island	1,006	474	1,142	1,278	3,218	1 531	8 648
South Carolina	1,912	1,524	1,866	1,170	3,519	0	9 991
South Dakota	520	451	490	411	1,968	0	3,840
Tennessee	3,479	2,077	2,658	2,649	7 611	190	18 664
Texas	19,562	9,924	12,390	26,331	31 839	2,708	102 754
Utah	916	620	813	574	2,146	114	5 182
Vermont	239	185	290	229	907	0	1,850
Virginia	3,514	2,204	2,314	2 823	8 479	216	19 550
Washington	5,167	2,342	4,685	2 690	8 209	528	23 621
West Virginia	1,071	801	782	733	4 808	0	8 194
Wisconsin	2,589	1,167	2,023	1 563	6 024	83	13 449
Wyoming	261	278	297	284	653	0	1 772
Puerto Rico	13	4	0	47	21	0	85

*Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency
NOTE Figures may not add to totals due to rounding

Loans of national banks, by states, March 31, 1989
(Dollar amounts in millions)

	Total loans gross	Loans secured by real estate	Loans to farmers	Commercial and industrial loans	Personal loans to individuals	Other loans	Total loans less unearned income	Total loans at foreign offices
All national banks	$1,204,925	$402,191	$12,974	$360,588	$221,228	$65,127	$1,195,233	$142,817
Alabama	9,703	3,749	43	3,626	1,974	312	9,534	0
Alaska	1,196	441	3	616	93	42	1,196	1
Arizona	12,267	4,057	456	3,559	3,617	578	12,255	0
Arkansas	5,300	2,383	152	1,613	1,007	145	5,254	0
California	147,857	56,609	1,810	31,376	20,346	8,712	147,604	29,003
Colorado	10,820	4,121	471	3,159	2,542	521	10,811	6
Connecticut	15,488	7,822	29	4,869	2,546	212	15,336	10
Delaware	19,210	1,042	1	564	17,521	81	19,194	0
District of Columbia	12,103	5,368	0	4,147	1,015	891	12,055	682
Florida	58,622	29,561	156	13,160	14,439	1,201	57,685	105
Georgia	23,914	8,435	62	8,149	6,061	1,046	23,832	162
Hawaii	150	86	0	51	12	2	150	0
Idaho	3,894	982	295	1,348	1,139	131	3,884	0
Illinois	67,412	16,367	732	29,239	6,106	6,275	66,960	8,693
Indiana	19,126	6,942	246	5,974	5,137	721	19,029	107
Iowa	5,260	1,779	465	1,538	1,287	191	5,227	0
Kansas	5,666	1,907	721	1,685	1,166	186	5,653	0
Kentucky	9,551	3,093	103	3,361	2,250	716	9,392	28
Louisiana	12,662	4,744	49	4,701	2,455	356	12,609	358
Maine	2,896	1,683	11	745	445	12	2,866	0
Maryland	16,638	7,040	24	4,772	3,546	893	16,574	363
Massachusetts	44,418	15,616	15	15,968	3,657	4,250	44,307	4,912
Michigan	28,857	9,565	106	11,205	4,904	1,664	28,836	1,413
Minnesota	23,092	5,654	418	10,814	3,686	1,926	22,968	594
Mississippi	5,276	2,097	54	1,641	1,358	127	5,173	0
Missouri	16,084	6,688	289	4,999	2,923	1,171	16,023	15
Montana	1,700	466	188	532	495	19	1,694	0
Nebraska	5,475	1,268	1,001	1,365	1,561	280	5,472	0
Nevada	8,324	894	15	926	6,424	64	8,314	0
New Hampshire	4,390	1,378	0	853	2,137	23	4,389	0
New Jersey	46,296	22,059	9	15,827	7,197	999	45,713	205
New Mexico	3,460	1,693	94	877	716	81	3,428	0
New York	211,531	48,682	326	44,323	17,719	11,229	207,665	89,250
North Carolina	33,420	13,957	176	12,497	4,516	1,865	33,392	409
North Dakota	1,516	503	193	434	364	23	1,515	0
Ohio	50,549	15,638	288	17,339	14,671	2,445	50,285	168
Oklahoma	7,204	2,975	549	2,204	1,069	406	7,170	0
Oregon	9,612	2,673	211	4,165	2,084	479	9,608	0
Pennsylvania	68,242	18,827	112	30,111	9,375	6,253	67,671	3,564
Rhode Island	9,185	3,675	1	3,264	1,093	1,089	9,171	63
South Carolina	8,766	3,384	46	3,094	2,011	231	8,665	0
South Dakota	13,259	527	283	1,310	11,033	106	13,241	0
Tennessee	14,835	5,624	42	5,208	3,308	652	14,680	0
Texas	67,093	24,703	1,513	24,935	9,604	3,910	66,363	2,427
Utah	4,270	1,586	72	1,446	1,015	151	4,254	0
Vermont	1,622	1,018	18	369	212	4	1,621	0
Virginia	17,905	7,733	101	4,841	4,694	519	17,812	17
Washington	21,670	8,099	717	6,329	5,131	1,202	21,647	191
West Virginia	5,300	2,469	11	1,252	1,524	45	5,231	0
Wisconsin	10,979	4,248	206	3,927	1,846	684	10,970	68
Wyoming	799	270	90	258	174	7	795	0
Puerto Rico	63	11	0	27	25	0	61	0

* Includes national and [illegible] banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.
NOTE: [illegible] may not add to totals due to rounding.

Outstanding balances, credit cards and related plans of national banks, March 31, 1989
(Dollar amounts in thousands)

	Total number of national banks	Credit cards and other related credit plans	
		Number of national banks	Outstanding volume
All national banks	4,302	2,311	$78 095 937
Alabama	52	17	278 005
Alaska	3	2	48 654
Arizona	15	14	780,319
Arkansas	84	14	107,340
California	163	147	10 601,199
Colorado	244	216	1,044,999
Connecticut	18	9	511,253
Delaware	17	17	16.853.866
District of Columbia	24	20	159,760
Florida	166	78	2,397,990
Georgia	58	39	2,193,590
Hawaii	3	1	2,926
Idaho	6	6	180,014
Illinois	365	189	282,231
Indiana	99	80	979,022
Iowa	103	58	302,027
Kansas	165	44	240,367
Kentucky	82	37	176,990
Louisiana	55	24	476,214
Maine	7	7	78,185
Maryland	25	19	1,907,697
Massachusetts	40	31	1,023,893
Michigan	82	56	1,405,560
Minnesota	159	110	769,866
Mississippi	27	10	107,810
Missouri	95	56	317,154
Montana	56	32	51,390
Nebraska	111	48	820,103
Nevada	7	5	5,875,627
New Hampshire	17	12	1,662,118
New Jersey	60	45	767,837
New Mexico	41	14	178,404
New York	104	68	3,642,095
North Carolina	15	14	918,906
North Dakota	29	12	79,050
Ohio	135	102	3,412,023
Oklahoma	192	70	42,143
Oregon	8	7	642,056
Pennsylvania	163	80	754,517
Rhode Island	5	4	308,943
South Carolina	28	22	323,085
South Dakota	24	10	10,258,610
Tennessee	50	25	661,221
Texas	768	236	411 342
Utah	7	4	182 268
Vermont	12	4	37 901
Virginia	53	24	1,141,941
Washington	24	15	1,970,566
West Virginia	90	27	87,332
Wisconsin	113	102	622,567
Wyoming	32	26	8,148
Puerto Rico	1	1	8 140
District of Columbia—all*	25	21	160 153

*Includes the nonnational bank in the District of Columbia which is supervised by the Comptroller of the Currency

National banks engaged in lease financing, March 31, 1989
(Dollar amounts in thousands)

	Total number of national banks	Number of banks engaged in lease financing	Amounts of lease financing at domestic offices
All national banks	4,302	980	$24,218,843
Alabama	52	5	68,867
Alaska	3	1	16,290
Arizona	15	5	351,202
Arkansas	84	23	13,801
California	163	49	4,341,430
Colorado	244	78	133,204
Connecticut	18	2	230
Delaware	17	2	76,218
District of Columbia	24	6	54,301
Florida	166	27	315,173
Georgia	58	11	475,368
Hawaii	3	1	1,580
Idaho	6	3	78,130
Illinois	365	91	199,895
Indiana	99	47	380,667
Iowa	103	15	9,246
Kansas	165	34	32,098
Kentucky	82	26	180,295
Louisiana	55	10	26,804
Maine	7	2	4,658
Maryland	25	6	477,322
Massachusetts	40	15	2,905,658
Michigan	82	21	393,692
Minnesota	159	67	255,908
Mississippi	27	3	2,288
Missouri	95	22	184,578
Montana	56	9	929
Nebraska	111	28	64,955
Nevada	7	2	6,290
New Hampshire	17	4	8,963
New Jersey	60	15	279,347
New Mexico	41	13	15,606
New York	104	20	6,043,141
North Carolina	15	6	998,157
North Dakota	29	13	8,625
Ohio	135	63	1,387,896
Oklahoma	192	43	11,278
Oregon	8	3	239,036
Pennsylvania	163	32	1,841,882
Rhode Island	5	2	1,016,751
South Carolina	28	6	77,948
South Dakota	24	7	4,032
Tennessee	50	14	187,368
Texas	768	60	399,876
Utah	7	5	113,298
Vermont	12	1	1,657
Virginia	53	7	119,095
Washington	24	8	244,654
West Virginia	90	5	2,709
Wisconsin	113	37	165,590
Wyoming	32	5	857
Puerto Rico	1	0	0
District of Columbia — all*	25	6	54,301

*Includes the non-national bank in the District of Columbia which is supervised by the Comptroller of the Currency

Foreign branch assets and liabilities of national banks, December 31, 1988
(Dollar amounts in thousands)

Assets	
Cash and cash items in process of collection	$ 817,081
Balances with U S banks (including IBFs and branches of U S banks)	7,131,232
Balances with foreign banks (including U S branches of foreign banks and IBFs)	41,199,761
Securities	8,976,306
Loans, discounts, overdrafts, and leases	
A Secured by real estate	8,151,209
B To financial institutions	7,474,823
C To commercial and industrial borrowers	46,191,898
D To non-U S govt and official institutions	6,770,919
E To all others	6,871,458
F Less, unearned discount	384,732
G Total loans, net	75,075,575
Customers' liability on acceptances outstanding	2,386,793
Premises, furniture and fixtures	1,373,321
Accruals—interest earned, foreign exchange profits, etc	2,540,028
Net due from other foreign branches of this bank	30,234,219
Net due from head office and U S branches of this bank	21,422,597
Net due from consolidated subsidiaries of this bank	10,653,860
Other assets	6,876,798
Total assets	208,687,571

Liabilities	
Deposits of U S banks (including IBFs and foreign branches of U S banks)	$ 11 751 009
Deposits of foreign banks (including U S branches of foreign banks and their IBFs)	25 792 828
Other deposits	103 906 532
Liabilities for borrowed money	8 069 363
Liability on acceptances executed and outstanding	1,879 413
Accrued taxes and other expenses	2 704 324
Net due to other foreign branches of this bank	19 379 237
Net due to head office and U S branches of this bank	22,452 762
Net due to consolidated subsidiaries of this bank	8,662,169
Other liabilities	4 089 934
Total liabilities	208,687,571
Memoranda	
Standby letters of credit	11,118,935
Commercial letters of credit issued and outstanding	4 086 631
Guarantees and letters of indemnity	2,282,745
Commitments to purchase foreign currency and U S dollar exchange	608,088,244
Total interest bearing balances included in items 2 and 3	43,526,337
Total interest bearing deposits included in items 14, 15 and 16	129,704,471

Total foreign branch assets of national banks, yearend 1953–1988*

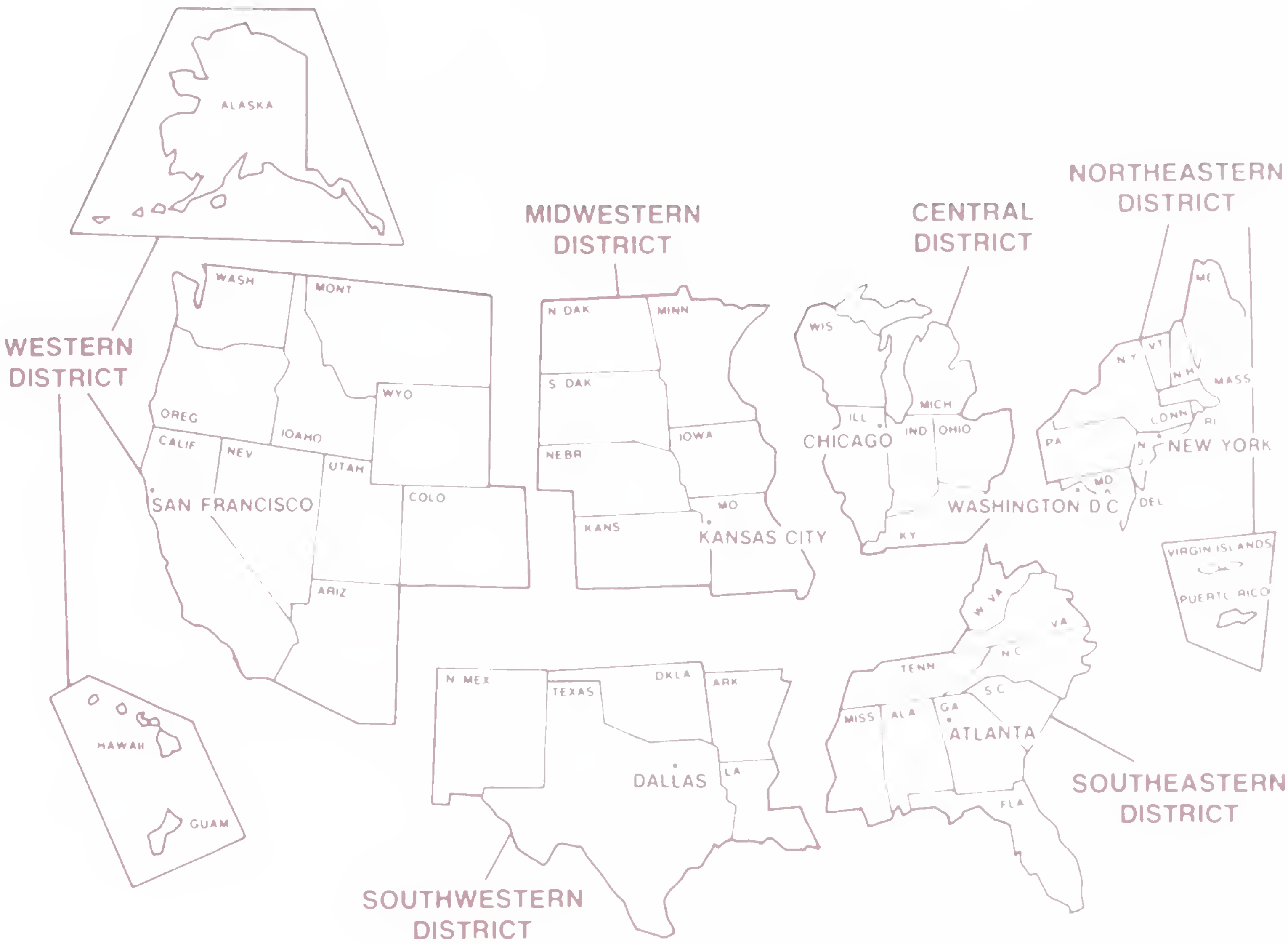
(Dollar amounts in thousands)

Year	Branches	Assets	Year	Branches	Assets
1953	NA	$ 1,682,919	1971	528	$ 50,550,727
1954	NA	1,556,326	1972	566	54,720,405
1955	85	1,116,003	1973	621	83,304,441
1956	NA	1,301,883	1974	649	99,810,999
1957	NA	1,342,616	1975	675	111,514,147
1958	NA	1,405,020	1976	635	134,790,497
1959	NA	1,543,985	1977	629	161,768,609
1960	93	1,628,510	1978	646	180,712,782
1961	102	1,780,926	1979	667	217,611,974
1962	111	2,008,478	1980	672	242,763,325
1963	124	2,678,717	1981	710	274,776,705
1964	138	3,319,879	1982	767	272,989,320
1965	196	7,241,068	1983	769	275,180,362
1966	230	9,364,278	1984	800	231,507,751
1967	278	11,856,316	1985	786	223,313,493
1968	355	16,021,617	1986	767	216,500,120
1969	428	28,217,139	1987	741	218,365,931
1970	497	38,877,627	1988	722	208,678,571

*Includes military facilities operated abroad by national banks from 1966 through 1971

Foreign branches of national banks, by region and country, December 31, 1988

Region and Country	Number	Region and Country	Number
Africa	13	Europe	112
Egypt	3	Belgium	6
Gabon	2	Denmark	2
Ivory Coast	3	England	35
Kenya	1	France	7
Liberia	1	Germany	8
Senegal	1	Greece	21
Sudan	1	Ireland	4
Tunisia	1	Italy	8
Asia and the Pacific	174	Luxembourg	1
Brunei	2	Monaco	2
Hong Kong	62	Netherlands	2
India	10	Portugal	1
Indonesia	5	Spain	7
Japan	21	Switzerland	8
Korea	13	Middle East	11
Macau	1	Bahrain	3
Malaysia	5	Jordan	2
New Zealand	1	Oman	1
Pakistan	8	United Arab Emirates	5
Philippines	9	South America	205
Singapore	17	Argentina	84
Sri Lanka	1	Bolivia	1
Taiwan	11	Brazil	41
Thailand	3	Chile	36
Turkey	5	Ecuador	8
Caribbean	129	Paraguay	10
Bahamas	49	Peru	5
British Virgin Islands	2	Uruguay	16
Cayman Islands	59	Venezuela	4
Dominican Republic	12	U.S. Overseas Areas & Trust Territories	45
Haiti	4	Guam	1
Jamaica	1	Puerto Rico	32
Netherlands Antilles	2	Virgin Islands	12
Central America	33	Total	722
El Salvador	1		
Guatemala	1		
Mexico	5		
Nicaragua	1		
Panama	25		



Northeastern District

New York District Office
1114 Avenue of the Americas
Suite 3900
New York NY 10036

Commercial 212-819-9860

Central District

Chicago District Office
One Financial Plaza
Suite 2700
440 South LaSalle Street
Chicago, IL 60605

FTS 8 364 8000
Commercial 312-663-8000

Southwestern District

Dallas District Office
1600 Lincoln Plaza
500 North Akard
Dallas TX 75201 3394

Commercial 214 720 0656

Southeastern District

Atlanta District Office
Marquis One Tower
Suite 600
245 Peachtree Center Ave N E
Atlanta GA 30303

Commercial 404-659-8855

Midwestern District

Kansas City District Office
2345 Grand Avenue
Suite 700
Kansas City MO 64108

Commercial [illegible]

Western District

San Francisco District Office
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[illegible]
[illegible]

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